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RYN - Q4 2015 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 4Q15 sales of $137m and net income of $10m or $0.08 per share.

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CORPORATE PARTICIPANTS

Mark McHugh *Rayonier Inc. - SVP & CFO*

David Nunes *Rayonier Inc. - President & CEO*

Doug Long *Rayonier Inc. - SVP, US Operations*

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

CONFERENCE CALL PARTICIPANTS

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

Mark Wilde *BMO Capital Markets - Analyst*

Steven Chercover *D.A. Davidson & Co. - Analyst*

Mark Weintraub *Buckingham Research Group - Analyst*

George Staphos *BofA Merrill Lynch - Analyst*

Chip Dillon *Vertical Research Partners - Analyst*

PRESENTATION

Operator

Welcome and thank you for joining Rayonier's Fourth Quarter 2016 teleconference call.

(Operator Instructions)

Now I will turn the meeting over to Mr. Mark McHugh, Senior Vice President and CFO. Sir, you may begin.

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

Thank you and good morning. Welcome to Rayonier's investor teleconference covering Fourth Quarter earnings. Our earnings statements and financial supplements were released yesterday afternoon and are available on our website at Rayonier.com.

I'd like to remind you that in these presentations we include forward-looking statements made pursuant to the Safe Harbor Provisions of Federal Securities laws. Our earnings release and Form 10-K filed with the SEC lists some of the factors that may cause actual results to differ materially from the forward-looking statements we may make. They are also referenced on Page 2 of our financial supplement.

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

David Nunes - *Rayonier Inc. - President & CEO*

Thanks, Mark. I'll make a few overall comments before we turn it back over to Mark to review our financial results, and Doug Long, our Senior Vice President, US Operations, will comment on US Timber results. I'll discuss our New Zealand Timber results, and following the review of our Timber segments, Chris Corr, our Senior Vice President for Real Estate, will discuss our Real Estate results.

We were pleased with our fourth quarter and full year results given the challenging market conditions we faced. For the full year, we achieved adjusted EBITDA of $208 million versus our previous guidance of $190 million to $215 million.

Our Southern Timber segment had another solid operational quarter, although sawtimber prices were flat compared with last year's fourth quarter, and average pulpwood prices decreased 2% mainly due to a temporary mill shutdown and a less favorable geographic mix.

In both Pacific Northwest and New Zealand Timber segments, prices continued to be impacted by weak demand from China. However, we did see some strengthening in New Zealand export log prices in the fourth quarter.

Our strong Real Estate results for the quarter reflected higher sales volumes and pricing of non-strategic and timberland properties primarily for conservation purposes, along with steady demand for rural properties. We also closed another improved development sale on our Belfast Commerce Park near Savannah. Our strong Real Estate results allowed us to achieve the upper end of our full year adjusted EBITDA guidance, despite accelerating the planned reduction in our Pacific Northwest Timber harvest in Q4.

We also completed our $100 million share repurchase authorization in the fourth quarter with the buyback of 1 million shares for $24.1 million, which reflects an average price of $23.32 per share. Since we commenced this repurchase program in June, we've repurchased 3.3% of our total shares outstanding at an average price of $23.79 per share.

We announced yesterday that our Board has approved a new $100 million share repurchase authorization as we continue to evaluate the best allocation of our capital to drive long term shareholder value.

And 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 $137 million, while operating income was $16 million, and net income was $10 million or $0.08 per share. On a pro forma basis net income was $11 million or $0.09 per share. Our pro forma net income for the quarter reflects an adjustment of $1 million for costs related to ongoing shareholder litigation. Pro forma results are shown and reconciled to the nearest GAAP metrics on pages 17-19 of the financial supplement.

Adjusted EBITDA of $48 million for the quarter was modestly below the prior year quarter, primarily due to lower contributions from our Pacific Northwest and New Zealand Timber segments, which were partially offset by stronger Real Estate results.

On the bottom of page 5 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 $117 million, compared to $93 million in the prior year, which included tax payments related to the performance fibers business, and cash interest paid on a higher level of pre-spend debt. The reconciliation of CAD to cash provided by operating activities is provided on Page 9 of the financial supplement.

We closed the quarter with $52 million of cash and $834 million of debt. Our net debt of $782 million represented roughly 22% of our enterprise value based on our closing stock price at year-end.

As we previously disclosed, during the third quarter we closed on new credit facilities totaling $550 million, which are comprised of a five year $200 million revolving credit facility and a nine year $350 million term loan. We utilized a portion of the new facilities to repay $131 million of senior exchangeable notes that were due in August, and to repay amounts outstanding on our prior revolver.

And as previously announced, we plan to use the balance of the term loan proceeds to fund the capital contribution into our New Zealand joint venture, for repayment of approximately $242 million of NZD-denominated debt and related costs. We're pleased to announce we have recently received New Zealand regulatory approval, and are expecting to close that transaction later this month.

With these new credit facilities and a relatively low debt as a percentage of enterprise value, we feel that we are well positioned to continue to fund timberland acquisitions and other capital allocation priorities, including share repurchases.

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

Doug Long - *Rayonier Inc. - SVP, US Operations*

Thank you, Mark. Good morning.

Let's start with Page 10 and the Southern Timber segment. They maintained a high level of production in the fourth quarter, harvesting 1.4 million tons, which was the same as Q3, and approximately 50,000 tons less than the same period last year.

EBITDA in Q4 of $24.9 million approximates Q3, and $3.4 million unfavorable to the same period in the prior year, due to a decrease in volume, lower prices, higher costs due to some one-time expenses related to a systems upgrade, and lower non-timber income.

Pine pulpwood prices of $18.24 per ton in Q4 were 11% above Q3, and 2% below Q4 of 2014. The increase in price over Q3 was attributable to a reduction in volume from our lowest price region. Without this shift in regional mix, prices remain flat to Q3.

The slight decrease in price compared to Q4 of 2014 was a result of a reduction demand along East Coast due to a temporary mill shutdown. That mill is up and running now, putting additional price tension back in market. Pine grade prices of $26.74 were 2% below Q3, and comparable to Q4 of 2014.

In 2015, our sawtimber prices have remained pretty consistent, and any fluctuation has been generally due to geographic mix.

Hardwood prices of $16.36 per ton in Q4 were 1% below Q3, and 23% above Q4 of 2014, primarily due to wet weather driving demand in the second half of the year, particularly for hardwood grade logs. In total, we exceeded our harvest target of 5.4 million tons by 100,000 tons, due to the contribution of volume from recent acquisitions. Well-timed stumpage and delivered sales aided us in achieving strong prices in all our markets. In 2016 our target harvest level for the US South is between 5.8 and 6 million tons.

Now moving to the Pacific Northwest Timber segment on Page 11. Harvest volume of 315,000 tons was 38,000 tons lower than Q3, and 11,000 tons lower than the same period in the prior year. The reduced volume compared to Q3 was by design, as we intentionally deferred some planned stumpage sales in the quarter, due to weak market conditions. This reduction in volume was a primary contributor to a $3.8 million reduction in adjusted EBITDA in the fourth quarter, and compared to Q3. Also contributing to the lower EBITDA was an 11% reduction in sawtimber prices, and $74.33 per ton to $66.27 per ton. This reduction in sawtimber pricing on a per ton basis was primarily driven by different conversion factor from MBF to tons, due to grade and species mix changes.

Fourth quarter adjusted EBITDA of $3.5 million was $4 million less than the same period in the prior year. This decline was primarily due to weak sawtimber demand in China and lower harvest volumes.

Recall that in 2015, we had originally planned to reduce harvest volumes in the Pacific Northwest to 1.4 million tons. However, given the soft market conditions we experienced, we opted instead to preserve value on the stump, and accelerate the step down of our harvest volume to 1.2 million tons. Toward the end of 2015, we saw some slight strengthening in the export market. We are cautiously optimistic this trend will continue through 2016. We are planning to maintain the Pacific Northwest harvest level at 1.2 million tons in 2016.

Now Dave will review the New Zealand Timber results. Dave?

David Nunes - *Rayonier Inc. - President & CEO*

Thanks, Doug.

Page 12 shows the results in key operating metrics of our joint venture in New Zealand. After a challenging third quarter for our New Zealand JV, prices rebounded somewhat in the fourth quarter, as high levels of radiata pine log inventories at ports in China moderated, and demand improved.

Fourth quarter adjusted EBITDA of $6.9 million was 13% above the prior quarter, due primarily to stronger net stumpage prices and the impact of a small non-strategic land sale. Fourth quarter adjusted EBITDA was 50% below the prior year quarter, due to 20% lower harvest volumes, and a 20% decrease in export prices, which were partially offset by lower harvest, freight, and port costs.

The domestic price decline was driven by changes in the USD-NZD exchange rate, which also resulted in lower costs on USD basis, partially mitigating the impact of lower prices. Before consideration of the stronger USD to NZD exchange rate, domestic sawtimber prices on the NZD basis increased 2% over the prior year quarter.

While we saw improvement in the export demand in pricing from China for radiata pine during the fourth quarter, we anticipate continued volatility in export demand, and generally expect full year 2016 average prices to be in line with 2015. Also in 2016, we're planning on about a 10% reduction in total volume due to variations in the age class of our timber inventory.

As Mark commented, we're on track with the planned recapitalization of our New Zealand JV later this month, which will increase our interest in the JV to 77%.

In our Trading segment, higher fourth quarter volumes were more than offset by 16% decrease in prices compared with the prior year quarter, but lower costs resulted in roughly $1 million improvement in operating income.

For the full year volumes were 6% higher mainly due to two new contracts, and sourcing and export costs were lower, but these improvements were more than offset by 25% decrease in average prices compared to the prior year, due to weak demand from China and foreign currency impacts.

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

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

Thanks, Dave, and good morning, everybody.

Looking now at Page 13 I'm pleased to report that in 2015 we made significant progress in the execution of our Real Estate strategy, and delivered strong financial results with revenues of $86 million on 33,000 acres sold across all of our sales categories, at an average price of $2,600 per acre.

In 2014 we sold 45,000 acres at an average price of $1,700 per acre, and in 2015 we generated 12% higher revenue on the sale of 26% fewer acres, as we achieved higher average prices in each sales category. Q4 sales were solid, totaling $20 million, and included one sale in the Belfast Commerce Park in Georgia, as well as a significant conservation transaction in Florida.

In the Improved Development category in Q4, we sold 55 acres in the Belfast Commerce Park for $1.8 million, or roughly $33,000 per acre. We continue to be encouraged by the level of interest we are receiving for the Park and its strategic position in the greater Savannah industrial market, including direct access to Interstate 95 and the rail serving the Port of Savannah.

Also in the fourth quarter, we broke ground on our mixed use community development project, which we have named Wildlight, located north of Jacksonville, at the interchange of I-95 and State Road A1A. Light development is now under way, including clearing of the core commercial area, grading for the primary access road, installation of utility infrastructure, and final building pad preparation for the elementary school.

The Nassau County school district plans to begin construction of the Wildlight elementary school building next month. We are now actively marketing select commercial and residential parcels, and are encouraged by the interest we are receiving. We currently expect our first sales in Wildlight toward the end of 2016.

In the Unimproved Development category, we sold 185 acres in Q4 for $700,000, made up mostly of one sale in Texas for about $3,900 per acre.

In the Rural category, we closed on 981 acres for $2.7 million, at an attractive average price of nearly $2,800 per acre.

Non-strategic and Timberlands sales of 7,972 acres in Q4 included the sale of almost 5,000 acres in (inaudible) conservation.

Now for the full year 2016, we expect Real Estate sales to be between $70 million and $80 million, a range reflective of the lumpy and less predictable nature of the Real Estate business. We anticipate an increase in Improved Development sales for the development at Wildlight and continued interest at the Belfast Commerce Park.

We expect Rural and Non-strategic/Timberlands sales volume to be similar to 2015, but anticipate lower pricing due to fewer conservation opportunities currently in our pipeline.

And finally in 2016 we expect to make considerable progress on development projects, and in the marketing and enhancing of selected rural properties, as we advance our strategy to accelerate and unlock the long term value of our HBU portfolio.

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

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

Thanks, Chris.

Before we discuss guidance, I wanted to highlight a change that we've made to how we were reporting our Real Estate sales and adjusted EBITDA. As you'll see on Page 13 of the financial supplement, we've added a fifth category of Real Estate sales referred to as Large Dispositions. On the intent of adding this fifth category to distinguish between ordinary course HBU sales and dispositions of large packages of timberlands.

As we stated in the past, the focus of our Real Estate business is to optimize the value of our portfolio by identifying and monetizing properties that have HBU value in excess of timberland value. We've also stated that our strategy to limit reliance on the planned sales of non-HBU timberlands solely to augment our recurring cash flow. We continue to believe that this is the right strategy to promote transparency in our business and to create long term value for our shareholders.

However, we also recognize that from a capital allocation standpoint, it may make sense to sell timberlands, even non-HBU timberlands, at certain times, to raise proceeds for the purposes of capital allocation and redeployment. So we've added this fifth category of Real Estate sales termed, Large Dispositions, in order to identify and isolate sales of this nature, that is where the primary purpose of the sale is to generate proceeds for capital allocation, rather than to monetize an HBU premium. Going forward, Real Estate sales will be designated as Large Dispositions if they are in excess of $20 million, and there is no identified HBU premium relative to timberland value. Sales designated as Large Dispositions will be excluded from our calculation of adjusted EBITDA and CAD.

We believe that this added disclosure will allow us to maintain our commitment to transparency, and to operating the business in a sustainable manner, while also providing us with the flexibility to execute large sales of non-HBU timberlands when appropriate for capital allocation purposes.

Note that we had no sales that met this definition of Large Dispositions in 2015. However, in 2014, our sales of 19,500 acres in Florida for $22 million has been reclassified as a Large Disposition, and we've therefore revised our 2014 adjusted EBITDA to exclude this sale.

Now moving on to guidance for the year. On Page 15 of the financial supplement we provide guidance for 2016 on key financial metrics, and including operating income and adjusted EBITDA by segment. Overall we anticipate 2016 adjusted EBITDA will be in the range of $185 million to $210 million. We expect CapEx to be between $60 million and $65 million. DD&A is expected to approximate $107 million, and non-cash cost of land and real estate sold is expected to be roughly $20 million.

Also to assist you with your models, we anticipate interest expense for 2016 to be approximately $28 million, excluding any incremental interest expense we may incur on debt for timberland acquisitions or share repurchases. Income tax expense and cash taxes should both be minimal.

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

David Nunes - *Rayonier Inc. - President & CEO*

Thanks, Mark.

Overall we are pleased with our results for the year, particularly given the challenges that the sector faced. As we look forward to 2016, we expect continued solid pulpwood demand in our core markets, and improving sawtimber prices over the next few years, as the housing market continues to recover but limited near term upside, as end market lumber prices continue to be constrained.

We continue to expect some volatility in the China log export markets, with differential trends impacting radiata from New Zealand, versus hemlock and douglas fir from the Pacific Northwest. We are cautiously optimistic recent improvements in export market conditions will hold. Long term, we are still confident that China will remain an important source of additional demand for our logs from New Zealand and the Pacific Northwest.

In our Real Estate business, as Chris remarked, we are encouraged by the increased interest we're seeing in select development projects, which supports our strategy to unlock value in our coastal corridor properties.

We also had a strong year in executing on our capital allocation priorities. As we've discussed in the past, we're keenly focused on creating value for our shareholders through disciplined capital allocation, and our actions this year reflect that.

In 2015, we closed on nine timberland transactions in all three of our timber regions, totaling 37,000 acres for $98 million. Our acquisition strategy is focused on select high quality properties that upgrade our land portfolio, grow our sustainable harvest, and contribute to CAD accretion.

During the year we also completed $100 million of share repurchases. We've previously said that our capital allocation strategy will be dynamic, and will take into account a variety of factors. Clearly in the second half of 2015, we believe that the best use of our capital was to invest in Rayonier shares. Our share repurchases reflect our confidence in our business long term, and our view that recent trading prices in our stock have been well below the company's intrinsic value.

Our Board's approval of a new $100 million share repurchase authorization is testament to our commitment to remaining nimble, and making sound capital allocation decisions on behalf of our shareholder base. We remain committed to actively evaluating all capital allocation alternatives, including timberland acquisitions and share buybacks, with a focused view toward building long term value for our shareholders.

This concludes our prepared remarks, and I'd like to now close this part of the presentation and turn the call back over to the Operator for questions.

QUESTIONS AND ANSWERS

Operator

Collin Mings from Raymond James.

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

Good morning, guys. Just to start, Dave, just following up on that capital allocation strategy. Maybe just talk a little bit more about how aggressive you will be on share repurchases, maybe even potentially beyond that new $100 million authorization, maybe just update us what leverage metrics you're managing around, and then just again put that in context of how steep a discount the stock is trading relative to NAV?

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

Collin, I'll take that, this is Mark. Just to address your last question, first. We obviously don't publicly disclose our own internal view of NAV, but we generally think that a number of the analysts, as they calculate the NAV using sort of an asset level analysis on a per acre basis, generally do a pretty good job. We try to guide people to what we think are the appropriate ranges.

With respect to how aggressive we have been and will be on buybacks, we think we've been pretty aggressive in the last eight months, having repurchased about 3.3% of our outstanding shares for $100 million. We also announced the new buyback authorization obviously for an additional $100 million, which would equate to an additional 4% of our shares at today's price. So we're in a position to execute on additional buybacks, and clearly the price at which we would be buying today is more compelling than it was six months ago.

But I think it's also important to keep in mind that our debt capacity is not limitless, and that debt capacity gets exhausted much faster with buybacks versus acquisitions, as there's obviously no corresponding earnings with buybacks. So we're going to continue to evaluate the full range of capital allocation alternatives, we'll continue to allocate capital in a way that we feel will deliver the best long term returns for shareholders, and ultimately we think that that will be a mix of buybacks and acquisitions.

And I guess just to address your question around leverage targets, we think, we've said before we think we could comfortably operate in a range of 30% to 35% debt to enterprise value, if you kind of wanted to use enterprise value as a proxy for asset value. That would imply acquisition capacity in the range of $500 million, or buyback capacity probably in the range of about half of that.

However, we're also sensitive to any ratings impact of increasing leverage. Both of the agencies have indicated that if our debt to EBITDA were to exceed four times on a sustained basis, then we would potentially be at risk of a downgrade.

And we are just under that level currently, so it's hard to put a really fine point on this in the absence of specifics around a particular opportunity that we're evaluating. But you know we do feel though we have ample debt capacity, but we're going to be judicious about how we use that capacity as we manage the balance sheet going forward.

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

Okay, that's very helpful detail, Mark. Just given what's happened in the credit markets recently, has that impacted your thinking at all, given what's happened with credit spreads, or are you still just with the farm credit system out there, feel pretty comfortable about your ability to access debt financing for acquisitions?

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

We feel comfortable in our ability to access debt financing up to the ranges that I just talked about, and I think that we still have ample access within the farm credit system for that type of capacity.

Again, we would start to push against leverage limits at we could risk a downgrade, and I think certainly in today's market environment, with all of the uncertainty that we're seeing, we like the benefits of being investment grade and the access to capital and the cost of capital that that provides for us.

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So again, I think that we're certainly willing to weigh the merits of any capital allocation alternative versus the potential negatives associated with the downgrade, but I also think that we want to be very careful to manage our credit, our balance sheet, and our credit ratings, so that we have not just access to the farm credit system but broader access to capital.

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

Okay, I guess just on the theme of just external growth opportunities, it looks like you guys completed about $10 million of acquisitions in New Zealand during the quarter. I may have missed it, but can you provide a little bit more detail around those acquisitions, and then maybe touch on if you're seeing sort of opportunities out there? I know (inaudible) just recently announced a deal here in the US south, just an update on the deal market?

David Nunes - *Rayonier Inc. - President & CEO*

Sure, Collin, the New Zealand transaction was one that was negotiated for quite a lengthy period over the year. We closed on it late in the year. It was essentially a seven year timber deed, and it's something that we feel pretty good about from a return standpoint. It gives us a lot of operational scale advantages and cost advantages in the region of New Zealand that it's located, and we've got ready to harvest volume that we feel is locked in at attractive prices and returns.

And so it was something that from a capital allocation standpoint we felt was a very good use of our capital. We were able to buy it with funds from operations in New Zealand, and we'll move forward and fold that into our harvest profile in the near term.

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

Okay, and then just the broader market out there as far as opportunities, Dave?

David Nunes - *Rayonier Inc. - President & CEO*

Yes, the broader market, we're anticipating that there's going to be a fair bit of activity this year, and we're going to be-- we're going to continue to focus on properties that we think have a good fit for us from a quality standpoint and a cash flow standpoint.

I think that last year there were a number of properties that I think were below that mark, and so they were ones that while we may have looked at, we didn't pursue very aggressively. And so a lot of this is going to be a function of just how high a quality we see on properties that are out there.

But as has been discussed for a few years now, we're into that period where a number of the fixed term funds are starting to turn over, and so we're starting to see more and more properties come back on the market, and in some cases properties that we are familiar with from when they were on the market earlier. So we are definitely seeing that type of activity.

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

Do you think, Dave, that there could be any risk to some downward pressure in timberland values just as that timeline, picking on the US south, as that timeline for a recovery in the south continues to extend?

David Nunes - *Rayonier Inc. - President & CEO*

Well that certainly, that potential exists. I think that this is going to be a function of the capital flow, recognize you have offsetting elements to that, with net capital inflows coming into this sector, particularly in these uncertain market conditions, I think we tend to see timber as a flight to quality, and that has some offsetting impact.

As we have looked at market clearing prices on recent transactions, it does not appear that those values are moderating as you suggest, but it certainly always remains a potential in any market.

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

All right, one last one for me and I'll turn it over. Just curious, Dave, can you provide just an update on the legal issues, and maybe the latest communication with the SEC as it relates to the issues that came out of the internal review in 2014?

David Nunes - *Rayonier Inc. - President & CEO*

Sure, there's not a whole lot to update things on. The one new piece of information is we now have a hearing date in April on the class action lawsuit in terms of the motion to dismiss, and other than that it's been relatively quiet, and we'll be able to comment when we can comment.

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

All right, thanks, guys.

Operator

Mark Wilde from BMO Capital Markets.

Mark Wilde - *BMO Capital Markets - Analyst*

Thanks. Good morning, Dave, good morning, Mark. We really appreciate all of the detail you're providing us, and it's good to see you guys covering the dividend with timberland EBITDA.

First question I had is just around the volumes in the Pacific Northwest, looks like you're headed for about a million and a quarter tons in 2016. Is the target still the 1.1 that you talked about a little over a year ago?

David Nunes - *Rayonier Inc. - President & CEO*

Yes, it's about one million, 1.1 million, yes, we're still in that step down trajectory mark, and essentially what we did last year is, when we laid that out in 2014, we developed a step down that would get us there by 2017. And what we did in 2015 as the markets were weaker, we decided to essentially accelerate that, and we went from roughly 1.4 million tons to 1.2 million tons, so in some respects we were a year early in terms of that step down, and that does a couple things.

The faster we step it down to the ultimate volume, also the faster we're able to ramp it back up once that inventory recovers. And so while you don't see any impact near term, you'll see an impact on the back end of that inventory curve. So we feel really good about that, especially given that we're still able to meet our guidance, despite taking those few hundred thousand tons out of the Northwest.

As we looked at prices, it just seemed like the right thing to do. Prices were very soft as the China market went down, it really took a disproportionate hit out of the Northwest, and so we felt like that was the right thing to do from an asset management standpoint.

Mark Wilde - *BMO Capital Markets - Analyst*

Dave, understanding that kind of markets change, and that that may alter sort of cadence on all of this, if we looked forward to 2017, 2018, 2019, what are kind of just good first cut numbers at volumes out of the Northwest in those out years?

David Nunes - *Rayonier Inc. - President & CEO*

We will definitely see some ability as we recognize that our long term sustainable harvest is going to get [in a Scribner sense] it's going to get up to 160 million board feet, after dropping down to 125, and so that's, but that's going to take some time to get there. So I don't want to mislead you into thinking that we're going to have an immediate source of volume to go get, once we get to that 2017 level.

We anticipate that we'll be at that reduced harvest level for five to seven year period, once we get down to it. Our ability to flex harvest up really is still out there a ways in the Northwest.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay, and Dave?

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

It's worth noting, Mark, as well that the acquisition we made in the Northwest increases that slightly, so I think we had disclosed the 160 as being the sustainable harvest, but then we acquired the Scappoose property which added 5 million board feet to that sustainable harvest number.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. Also in the Northwest, you called out a couple of saw mill closures, and I just wonder whether that is a longer term kind of structural issue on kind of sawlog prices in your markets?

David Nunes - *Rayonier Inc. - President & CEO*

It's really probably first and foremost more of a short-term phenomenon in the sense that these were both former Simpson mills. One was the complex in Shelton and the other in Tacoma. And the Shelton facility was sold to Sierra Pacific, and Sierra Pacific is in the process of building a new mill there.

And so that's going to take a few years time where you essentially have a reduction in chip and saw demand from that, and that's one of the reasons, if you look more carefully at some of our comments, you'll see a commensurate increase in pulpwood pricing, because with those mills being down, you've got less chip supply, and so you get a little bit of an offset.

But as we see that mill come back up, that's going to restore some of the demand on the chip and saw side, where we see some short-term weakness. And again that also contributed to our decision to defer that harvest, or to accelerate that step down in the harvest this year.

Then the other mill in Tacoma is shut down permanently, and there has been discussion of, again, Sierra Pacific building a mill in nearby Frederickson. And we haven't had confirmation that that mill is going to get constructed, but to the extent it does, that will be yet another bit of more of a short-term impact to the market.

So I think long term, we still feel like that's a good region, and recognize Oregon and Washington are still number one and number two in the country, in terms of the production of lumber. And so we often forget about that, that those are two very large lumber producing states, and so we still feel like those are great regions to be located in, with strong domestic markets, and we really view this as a short-term phenomenon, and frankly as we're stepping down volume because of our inventory, it fits the timing of our own needs.

Mark Wilde - *BMO Capital Markets - Analyst*

Just turning for a minute to New Zealand, can you just talk at least in general terms about the future of that JV? I mean you're about to take your stake up here, but it looks like Phaunos is continuing to raise capital by selling timber assets, so I'm curious about the medium term view is, and your stake in that joint venture.

David Nunes - *Rayonier Inc. - President & CEO*

Yes, we feel good about that joint venture for a few reasons. One, is it is one of the few really scale ownership properties in New Zealand. And we're the third largest owner in New Zealand, and we enjoy some strong economies, and it was one of the reasons we felt confident in doing the capital restructuring and, in effect, increasing our stake in the JV.

I think Phaunos feel strongly about it as well. It's one of their preferred assets, and essentially what Phaunos had has been doing has been consolidating the properties in their portfolio that they feel the best about, and this is one of those. And so I think both ourselves and Phaunos like the exposure to China, Korea, and India that this provides us, and we'll see where it goes.

One of the things that's also important to note is, with the restructuring that we did and the infusion of capital, New Zealand essentially has no debt on its balance sheet at the JV level. And so it gives us the flexibility, if we see the right kind of opportunity, to grow in that market and lever off the balance sheet of the JV.

So we feel like we have a lot of operational flexibility going forward there, and again we like the exposure that we have, and as we've said on many occasions recognize that the exposure that New Zealand has is a very different exposure that Pacific markets than the Pacific Northwest.

It competes in China in a different way, primarily through access to the plywood markets, and access to fit out demand, unless [we're] primary construction. And that's the reason that New Zealand has had more of a steady demand for logs relative to the Pacific Northwest, is because of the Pacific Northwest is more heavily levered to the new construction side of the China market.

And so we feel good about the unique exposure in China, and Korea is also a very stable market where radiata is the primary player, and India is increasing its growth and could exceed the market in Korea just as it ramps up its own infrastructure objectives. And so again, the New Zealand asset really positions us well for all three of those key markets.

Mark Wilde - *BMO Capital Markets - Analyst*

The last question I have, Dave, is just you've been in the seat for about 18 months now. I wondered if we could just get a couple of thoughts on sort of where you think we are in terms of overall corporate overhead at Rayonier, and where we are just in terms of proper staffing in terms of field foresters and things.

David Nunes - *Rayonier Inc. - President & CEO*

Yes, I think that we're, our management team is really gelling and we've got a nice handle on things. I continue to say that one of the things that impresses me the most about Rayonier are the quality of our people. And one of the things that we have tried to do very intentionally is to change the culture here and have it, and unleash the power of our people, if you will.

And we've worked hard at pushing decision-making down deeper into the organization, and improving the efficiencies in which decisions are made. And so as we've done that, we've been able to take cost out of the system by removing some management layers, and relying more on decisions made deeper down in the field.

Having said that, as we have gotten deeper into improving things, we're continuously looking at areas where we can improve, and we're very mindful that we're not in a static environment. Certainly with the Weyerhaeuser-Plum proposed merger, we recognize that we're going to have to be competitive from a cost standpoint. And so that's something that we're looking at all the time, and we'll continue to look at.

But I feel really good about where we are right now, and the degree of change that we have put in place. We've changed our measurement systems. I think our workforce is turned on and buying into the cultural changes that we're making.

And we're seeing that in the form of increased cooperation and coordination between our Timber and our Real Estate segments, as well as between differential timber geographies. And I think that's one of the reasons our results were strong this year despite some challenging market conditions.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay, that's great, Dave I'll turn it over, thank you.

Operator

Steve Chercover from D.A. Davidson.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

Thank, good morning everyone. Mine are fairly simple. Can you remind us please what the other operating income is, that's been ranging from $19 million to $25 million or so over the last several years?

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

Its been ranging from $19 million to $25 million, I'm not sure which you're referring to, Steve.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

Well you had $19 million in --

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

Oh, that would be, I'm sorry, that would be non-timber income, that's right. So that would be primarily hunting leases, cedar salvage sales in the Northwest. Those would be the two key items there. In the South that'd be also fill dirt, revenues coming off of oil & gas exploration, things like that, minor forest products, (inaudible), signed leases, things like that.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

Got it. So should that remain at around the same run rate going forward?

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

Yes, it'll move around a little bit just on, particularly with pipeline easements and things of that nature. But generally it will be pretty static. I mean, the hunting leases are very consistent, the cedar salvage sales will bounce around a little bit, but I think at that range is pretty consistent and a good bogey.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

Great. And then a lot of these things have already been addressed, but with the way you consider repos versus new land acquisitions, when you consider a repo eliminates a 5% dividend yield, I can't imagine that you could buy land with a discount rate lower than that.

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

I think market discount rates in timberland today continue to be in the range of 5% to 6% real. Now that's kind of an all-in discount rate which would account for a number of other assumptions that go into it. But I would say that we have generally been focused on properties that are more productive than average. So I think that the cash yields that we're seeing on the properties that we've been buying have generally been in that same type of zip code, Steve.

David Nunes - *Rayonier Inc. - President & CEO*

And Steve, we've been trying to make sure that as we look at acquisitions, we're favoring acquisitions that are accretive to that distribution yield. And so we continue to believe that from a capital allocation standpoint, there's arguments to be made for both NAV accretion, which you get more principally on buybacks, as well as CAD accretion that you get from acquisitions that have a nice fit with our existing portfolio.

So notwithstanding where the share price is today, and the implied discount rate that that would suggest, doesn't mean that we're not looking at acquisitions. We're still looking at them, we're just being fairly selective.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

Sure. And not to talk too much with about other companies, but with that pending merger, could there be any benefits to you? Presumably they will exercise some sort of market power in regions where they have good overlap, and maybe that provides a bit of a vacuum for you to step into?

David Nunes - *Rayonier Inc. - President & CEO*

We don't have, I wouldn't say that there's vacuums. The timber markets generally are fairly competitive, when you get to the micro market level, and so you really have to look at it state by state, and micro market by micro market to kind of assess competitiveness. And so we continue to like where we are, and we have sort of a short list of areas that we find attractive, and I think that if that merger goes through, we'll certainly factor that, their scale, into the attractiveness of growing in a particular region.

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

Steve, just to be clear, we don't have a lot of overlap in the areas in which we have concentrated holdings versus where they have concentrated holdings, and again, these markets are very micro in nature. The pricing dynamics on the east coast of Florida are very different than they are in Arkansas.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

Point taken. Okay and final question kind of on the fly. You've never been very promotional about the whole biomass opportunity, and I assume that with energy prices where they are today, biomass becomes far less compelling, but are you aware of any of these proposed pellet plants or biomass facilities that have actually become uneconomic and are no longer on the drawing board as conventional energy prices creator?

David Nunes - *Rayonier Inc. - President & CEO*

A lot of the ones that I think you're alluding to are in geographies that we don't have much of an operating footprint in, and so we don't follow that quite as closely. We certainly have benefited from some of these biomass facilities that are operational. A number of them are in geographies that we are in.

Recognize a lot of that product has to be close to a port, and so it often sits in areas that are also near some of our stronger coastal markets, and so we've certainly benefited from it. We don't tout it as much just because it is simply a component of the market demand. We'll be watching that clearly as we go forward. I don't necessarily believe that that substitution effect is going to necessarily change over time.

I think we're going to continue to see pressure for the carbon benefits of wood to supplant other power generating opportunities. I don't necessarily see that going away.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

Thanks for answering my questions.

Operator

Mark Weintraub from Buckingham Research.

Mark Weintraub - *Buckingham Research Group - Analyst*

Thank you. I guess I'm trying to understand a little bit better the willingness to buy some lands while at the same time recognizing that your share price is trading at a wide discount to your perspective in net asset value. And maybe one question in that regard is, you clearly haven't included any large dispositions in your guidance for 2016, as it would be included in the EBITDA numbers you give in any case.

But is it fair to say that you are, you have either been actively reviewing or are actively reviewing alternatives for that, and if so, what would be the drivers that would lead you to decide whether to greenlight large dispositions or not.

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

Mark, I'll take that. As a general matter we don't comment on a specific M&A opportunities, either buy side or sell side, until there's something definitive to announce.

What I will say is this. Clearly we're in a market environment in which there's a significant disconnect between public and private market values for timberland. And given we've just repurchased $100 million of stock at an average price of $23.79, I think it's safe to say that price of our stock today, which is below $20, represents an even larger discount to NAV and even more compelling investment opportunity. And if we want to take advantage of that arbitrage opportunity without significantly increasing leverage, then selling assets is certainly one way to accomplish that.

So again, capital allocation is top of mind for our management team and our board. We're continuously evaluating the full range of alternatives to grow our value per share, and that could certainly include asset sales to fund those capital allocation alternatives.

Mark Weintraub - *Buckingham Research Group - Analyst*

And I presume the two important variables here will be the price that you would receive for selling the land, but also where you are in terms of the ability to finance share repurchase with your existing financing capability. Is that --

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

Yes, that's right. I mean like I said before, our debt capacity is not limitless. We're certainly pushing up against a range at which we have to start thinking about the prospect of a downgrade with respect to any capital allocation alternative we're evaluating.

And so certainly land sales could help fund any other capital allocation alternative, and so clearly we added that additional category in the Real Estate segment to give us the flexibility to execute on that type of strategy, while still sort of maintaining a commitment to what we said in the past around how we want to treat Real Estate sales and HBU.

David Nunes - *Rayonier Inc. - President & CEO*

And at the end of the day, Mark, we're going to still, we're going to be measured in part by how we manage our portfolio. And that's both adding to it and subtracting from it. And so we're always, as a management team we're always looking at those opportunities. It's not a one way street.

Mark Weintraub - *Buckingham Research Group - Analyst*

Thank you.

Operator

George Staphos from Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Hi, everyone. Good morning, thanks for all of the details. I wanted to come back to the question of capital allocation, and cover with you why are you, what reasons are you not so concerned right now about that NAV arbitrage that you talk to being created purely from easy money in the capital markets, and that NAV arbitrage compressing, if in fact land values start to compress, because money gets extracted from the system.

The related question would be this. I understand why you'd want to be buying land if you can get it at a yield accretion, and similarly why you'd be buying stock back given that you'd be retiring dividend payments. But how does debt pay down fit into your capital allocation strategy as well, and where or what considerations would we have to see where you'd start flexing that lever? Thank you.

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

I'll take the question around private market values. Look, I don't think that we're indifferent to the idea to the extent there's a repricing of assets, all assets, timberlands included, that we have to be thoughtful about. What is the true underlying NAV and what is the true arbitrage opportunity that's available in the market, and that's something that we're constantly looking at.

I think when the stock was hovering around $24, it was a little, that was a little bit more of a nuanced evaluation. I think with where it's at today, if you look at the implied value of our acreage, we kind of do some math where we try to back into implied values, using relative values in each of our regions.

I think that our US south acreage is trading below $1,300 an acre today. That is pretty cheap by any measure over the last decade or so. The NCREIF Index, even in the face of the housing crisis, I think the lowest that it got in that period was about [1475] per acre, and what was driving that economic crisis was a downturn in the collapse of the housing market, which had a much more direct impact on timberland values than kind of what we're seeing in today's market.

And so by any measure, it certainly feels as though the stock is cheap, it certainly feels as though it's trading at a significant discount to NAV, but we're constantly refining our views around NAV, and again we're not indifferent to kind of looking at stress testing kind of different pricing scenarios with economic, with different sort of outlooks for the economic situation.

David Nunes - *Rayonier Inc. - President & CEO*

George I'd just add to that too that I don't think that we're seeing a net reduction in capital flows coming for this asset. We're continuing, this asset is continuing, asset class is continuing to mature, and I think as it does so and becomes more of its own unique asset class, it's attracting capital from other regions and other sectors of the market, and we see that in the context of the asset values as we discussed earlier in the call, we're just not seeing fall off that you describe as being a potential, but we certainly look for that.

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

I'll say it feels ale little bit like 2009 where you kind of saw the timber REITs trade off pretty significantly, but the private market values were still staying pretty lofty, and I remember talking to a number of people at the time and saying, this is interesting that there's this big disconnect between public and private market values, but in an efficient market there really is no basis for this disconnect to exist into perpetuity, and so likely we may see some softening in private market values and we're likely to see strengthening in public market values and that eventually happened.

And so again I think that we do believe that the disconnect is pretty wide today, and that's the arbitrage opportunity that we see, but again, I think that we're also being thoughtful about just thinking about kind of what true underlying NAV is in this market environment.

George Staphos - *BofA Merrill Lynch - Analyst*

Mark, David, I appreciate the comments. I think the answer on debt was implied in your response on the NAV arbitrage, but do you see much room for taking debt down in this environment, or do you just think that the opportunity on repurchasing your shares or buying land is too great to be doing at the present time?

And then quick follow on, if I can get it in. Can you talk about especially in the Pacific Northwest how your sawlog markets are early in the quarter? Were you at all surprised with the degree to which you saw erosion in the Pacific Northwest on log pricing? Thanks guys and good luck in the quarter.

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

I'll take the question around debt. I don't think that we see any reason to take leverage down from where it is currently. I think that we have a very conservative capital structure as it exists today. I don't think that it's sensible to lever up timberlands assets. It removes that flexibility that you have to kind of modulate your harvest to market conditions, and you never want to be in a position of selling land and cutting timber in a bad market environment because you have to, to fund your interest expense.

That said, our leverage is very low relative to asset value. Our interest expense on that debt is very very inexpensive. On our last financing, the $350 million term loan that we did with the farm credit system swap to fixed basis net of patronage, the interest cost was about 3.3%.

And so we're certainly not going to push leverage to a point where we would put any kind of stress on the company, even in sort of a downside market environment, but I think that, I don't think that debt pay down is a significant capital allocation priority today, just given how conservative our leverage is.

David Nunes - *Rayonier Inc. - President & CEO*

And then on your question, George, regarding the Pacific Northwest, I would say we were not surprised by that. I think that we recognized that if you break down the market in China and you break down the market in the Pacific Northwest, the white woods, which are primarily hemlock in the Pacific Northwest, were the primary beneficiary of the ramp up in demand from China. And we saw a compression of the historical price relationship between douglas fir and hemlock, as the China market increased.

And as the China market softened, we recognized that that white wood product is going to be, to some degree, that marginal bit of demand. And so the fact that it's that marginal demand, and the market declined, we expected both volume and price erosion as a result of that, which certainly factored into our decision to take volume down this last year.

And as we look at the China market today, the Northwest really took a lot of the brunt of that reduction, much more so than New Zealand, as I'd mentioned earlier. New Zealand really competes in a different part of that China market, so no, we weren't surprised by that, and I think that was, that was a very predictable phenomenon.

George Staphos - *BofA Merrill Lynch - Analyst*

All right, guys, thank you very much.

Operator

Chip Dillon from Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

Yes, hi, good morning, just a couple quick ones. One, and you might have addressed this, as you think about the business from New Zealand into other parts of Asia, China, as well as from the Northwest, is your sense that sort of the level of activity with China in particular has stabilized at a lower level, or maybe has more to go down, or you think it might be in the process of recovering some?

David Nunes - *Rayonier Inc. - President & CEO*

I think as it relates to our New Zealand business, the area we see a fair bit of stable market as it relates to China, there's two areas where that affects us.

One is the what we call the buildout market. Recognize a lot of the China market is these large multi-story concrete shells for apartment buildings, and when they're sold, they have to be fitted out, and the fitting out of those translates into demand for wood, translates into plywood, and it has a direct relationship to radiata demand. And I think it's one of the reasons that while we've seen new construction slowdown in China, this fitout market has continued to represent a fairly stable source of demand, as they have sold down the inventory, it's created demand.

The other phenomenon that's at play as it relates to New Zealand is that we're competing with sources of domestic production in China that the Chinese government is reducing supply and reducing harvest, and so we've got both solid demand and a shrinking supply that we're competing against. So for that reason, we feel pretty good about the exposure that we have from New Zealand in the China market as representing a fairly stable source of demand.

And then the other two key markets, Korea has traditionally been a fairly stable market, roughly in that 20%, 25% range. And then India is, while a small piece of demand is growing at a pretty rapid rate as they are embarking on infrastructure projects, and so that's a market that we're quite excited about just in terms of the growth rate.

And so when we put all three of those together, these are markets we really don't have exposure to in the Pacific Northwest, and we view it as kind of a classic market diversification opportunity for us as a timber portfolio.

Chip Dillon - *Vertical Research Partners - Analyst*

Got you, and then just real quickly. I'm sitting here thinking 10 years ago, 12 years ago, we had sort of a rush of pension plans going into timberland as an asset class, and that created a real push up in values. Our concern had been that as these partnerships come to an end, you might see a lot of maybe some excess supply on the market.

Although today in the real world, if I'm running a pension plan, my choices are, I can pay the German government to take my money, or I'm getting a 1.59% for 10 years from the US government, and you, I think Mark mentioned the discount rates.

My guess is that that fear is completely off the table, and maybe what I think is different about timberland is that it's a 50-70 year asset, and the duration is very long, and it kind of doesn't matter what lumber is today. And I guess my question is, are you starting, when you think about those realities, are you starting to actually see increasing interest from pensions and endowments who really have very few other places to go?

David Nunes - *Rayonier Inc. - President & CEO*

Chip, I think you hit it right on the head and to some degree this gets back to what I was talking about earlier on the call on, you have to look and try to get a grasp of the net capital flows in the market, and I would say that we're still at a stage where there are a lot of pension plans and other long dated endowments and the like.

There are a lot of those sources of capital that are in timber, but there's a lot that are trying to get into timber, and I think we see that in the context that we're not seeing a lot of decline in asset values on transactions, because while you have some of those transactions from a decade ago coming back to market, and maybe in some cases people exiting the market, I think you've got plenty of others coming on to the market, and certainly as you look at negative interest rate environment in Europe, I think we're seeing a continued growth in European capital in this asset class.

We see it on the TIMO space, more and more capital flowing into the TIMOs European capital, and I think it's a flight to quality. It's a yield play, as you described, and so we think that that helps buttress the asset class that we're in, and keeps private market values at a relatively stable level notwithstanding the broader uncertainty in the rest of both capital markets and product markets.

Chip Dillon - *Vertical Research Partners - Analyst*

Got you, thank you.

Operator

Thank you.

(Operator Instructions)

David Nunes - *Rayonier Inc. - President & CEO*

Well hearing no other questions, thank you everyone for your time. I hope this call was useful in understanding more about Rayonier, and we look forward to the next one, and as always, we're available to address any questions that you may have offline. Thank you.

Operator

That concludes today's conference. Thank you for participating. You may now disconnect.