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RYN - Q1 2014 Rayonier Inc Earnings Conference Call

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OVERVIEW:

RYN reported 1Q14 sales of $387m and net income of $43m or $0.34 per share.

CORPORATE PARTICIPANTS

Ed Kiker *Rayonier - VP Investor Relations*

Paul Boynton *Rayonier - Chairman, President & CEO*

Lynn Wilson *Rayonier - EVP, Forest Resources*

Chris Corr *Rayonier - SVP, Real Estate*

Jack Kriesel *Rayonier - SVP, Performance Fibers*

CONFERENCE CALL PARTICIPANTS

Mike Roxland *BofA Merrill Lynch - Analyst*

Chip Dillon *Vertical Research Partners - Analyst*

Paul Quinn *RBC Capital Markets - Analyst*

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

Mark Weintraub *Buckingham Research Group - Analyst*

Collin Mings *Raymond James & Associates - Analyst*

PRESENTATION

Operator

Welcome and thank you for joining Rayonier's first quarter 2014 teleconference call.

(Operator Instructions)

Today's conference is being recorded. If you have objections, you may disconnect at this time. Now, I'd like to turn the meeting over to Mr. Hans Vanden Noort, CFO. Sir, you may begin.

Ed Kiker - *Rayonier - VP Investor Relations*

Actually, this is Ed Kiker. Thank you and good morning. Welcome to Rayonier's investor teleconference covering first quarter earnings. Our earnings statements and presentation materials were released this morning and are available on our website at Rayonier.com. I would like to remind you the news presentations will include forward-looking statements made pursuant to the Safe Harbor provisions of Federal securities laws.

Our earnings release, as well as our Form 10-K filed with the SEC, list some of the factors which may cause actual results to differ materially from the forward-looking statements we may make. They're also referenced on page 2 of our presentation materials. With that, let's start our teleconference with opening comments from Paul Boynton, Chairman, President, and CEO. Paul?

Paul Boynton - *Rayonier - Chairman, President & CEO*

Thanks, Ed. I'm going to make some overall comments before turning it back over to Ed to review our financial results. Then we're going to ask Lynn Wilson, Executive Vice President of Forest Resources, to comment on our timber results. Following our review of timber, Chris Corr, Senior Vice President of Real Estate will discuss our land sales results and Jack Kriesel, Senior Vice President of Performance Fibers, will take us through the results of the cellulose fibers business.

First, let me welcome Ed Kiker to the role of CFO for Rayonier. Ed has been with Rayonier for 12 years and I've worked with Ed his entire tenure. He's held a series of senior financial roles and most recently was our Vice President of Investor Relations. Ed replaces Hans Vanden Noort. Hans decided to retire from Rayonier and we thank Hans for all his time with the Company and we wish him well in retirement. Again, welcome, Ed.

This morning, we reported first quarter earnings of $43 million or $0.34 per share. Forest Resources had an excellent quarter, with the highest operating income since second quarter 2006 and 107% above a year ago. We are encouraged by improving demand and prices for timber in the US South, where we see rising sawlog demand, as well as tight supply due to wet weather.

We are pleased with the continued strength of the domestic and export markets for our Washington state and New Zealand timberlands. We're fortunate to have significant assets that can leverage a continuing net deficit of softwood logs in the Asia-Pacific basin. The modest real estate results this quarter demonstrate the lumpy nature of our real estate business and the variability we can see quarter to quarter.

We did not plan to offer any non-strategic properties for sale in the first quarter and sales were additionally impacted by both the timing of closings and severe weather across the US that kept buyers away. However, as Chris will discuss, we are certainly seeing above-average activity on most all of our property now in the US Southeast and we still expect full-year results to be somewhat comparable to 2013.

Additionally, we're making great progress on strategic initiatives regarding our development properties. Performance Fibers results were soft, driven by: one, our planned extended maintenance shutdown, which we moved forward from 2015; two, some one-time Jesup mill operational issues, which impacted timing of customer shipments; and three, higher costs, which were mainly weather-related.

In the quarter, we continued to generate solid operating cash flows and cash available for distribution, which were greater than prior year period and above our $0.49 per share dividend. In addition, we made significant progress on key strategic initiatives, including successfully qualifying production from our cellulose specialties expansion with major customers and progressing toward the separation of the Performance Fibers business, which I will comment on in my summary. Now, with that, let me turn it back over to Ed for a review of the financials.

Ed Kiker - *Rayonier - VP Investor Relations*

Thanks, Paul. Let's start on page 3 with our financial highlights. Overall, as Paul noted, we had a mixed first quarter, which each of the business unit leaders will cover in more detail. Sales totaled $387 million, while operating income totaled $65 million and net income $43 million. There was one special item this quarter, $3 million after-tax and transition costs related to the separation of our Performance Fibers business.

The fourth quarter included one special item, a $2 million accrual for our discontinued operations. These items, along with the results and gain on sale of our wood products business in the prior year quarter, have been excluded to arrive at the pro forma amounts used for the comparisons throughout this call. On the bottom of page 3, we provide an outline of capital resources and liquidity in comparison to first quarter of 2013.

We closed the quarter with $156 million of cash. Our debt balance declined to $1.5 billion. Our usual variance analyses are provided on pages 4 and 5 of the financial presentation material and cash available for distribution is shown on page 6. We're now going to move right into markets and operations on page 8, so let me turn the teleconference over to Lynn Wilson to cover Forest Resources.

Lynn Wilson - *Rayonier - EVP, Forest Resources*

Thank you, Ed. Good morning. Let's start with page 8 and the Northern regions, which comprises our Washington state operations. Delivered log prices remained strong throughout the quarter, continuing to run at peak levels, and were 14% higher than last year's first quarter, driven by strong domestic and export demand, especially to China.

This quarter, 27% of our delivered sawlogs were sold into the export market. We expect second quarter prices to be slightly higher than the first quarter of 2014; although, we are beginning to see rising log inventories in China ports, which should exert some downward pressure on prices in the early third quarter, before rebounding again for the balance of the year.

For the full year, we believe overall demand will remain strong in the northern region, driven by improved domestic log markets and sustained demand from Asia. Based on current market conditions, we expect delivered log prices to increase at least 5% to 10% in 2014. We also anticipate that 2014 volumes will be slightly higher than 2013.

In the Atlantic and Gulf regions on page 9, average pine stumpage prices increased substantially from fourth quarter due to increased pulp wood and sawlog demand coupled with restricted supply as a result of wet weather across the South. Prices were above the same period last year for both sawlogs and pulpwood, as demand increased for all products.

Pine saw timber stumpage prices increased 11% from the prior year quarter, as additional wood products capacity in our key markets is driving increased demand. We anticipate that 2014 pine harvest volume will be slightly higher than 2013. Based on current stumpage sales results, we anticipate South-wide pine prices will be 10% to 15% above 2013, reflecting improving sawlog demand and continued strong pulpwood demand.

Now, on page 10, let's focus on our joint venture in New Zealand, in which we own 65% interest. Export prices continued to increase during the quarter, even though the chart shows a $1 per ton decline. This is due to customer mix, whereby higher percentage of logs were delivered to the New Zealand ports versus our Asian port. Domestic pricing, although lagging export pricing, also increased from the fourth quarter and prior-year quarter by 5% and 10%, respectively.

For the full year, we believe strong export demand will continue to drive higher pricing, although second quarter pricing may be down somewhat, due to the higher inventory levels at the China ports. Overall, Forest Resources operating income is expected to be 30% to 35% above 2013, due to strong demand across all markets. Now, I'll provide a brief update on timberland acquisitions.

So far this year, we've evaluated in excess of 250,000 acres have acquired or have under contract six packages totaling 31,000 acres or $46 million. We anticipate purchasing only a limited number of the properties we evaluate in 2014, as we follow our disciplined acquisitions process. Now, let me turn it over to Chris Corr to cover real estate.

Chris Corr - *Rayonier - SVP, Real Estate*

Thank you, Lynn. Good morning, everyone. First quarter earnings were modest for our real estate business and this was no surprise to us, as the early months of the year are typically a slower time for real estate traffic compared to the better weather season from spring through summer. Second, we did not offer any non-strategic timberlands to the market.

We planned for a small quarter and had one and it wasn't a surprise, with the exception, maybe, of the winter weather, which was more relentless than anyone expected. But overall, we are upbeat about traffic and interest now that the sun has come back out. While real estate results can vary substantially from quarter to quarter, we still expect results for the full year to be somewhat comparable to 2013.

Page 11 details rural and development sales volumes; while we sold fewer rural HBU acres this quarter than we did last quarter, sales were higher than in the same quarter of 2013. This was largely due to the stronger markets in Texas. Moving ahead, as shown on page 12, rural HBU pricing was favorable to both the prior year period and prior quarter. The increased price reflected the disposition of a former tree nursery site in Georgia.

I mentioned earlier that we did not offer any non-strategic timberland to the market in the first quarter, so, as seen on page 13, non-strategic timberland sales volumes were significantly lower than the prior quarter and the prior year quarter. We are, however, working on a larger non-strategic timberland package in the second quarter, with closing expected in the second or third quarter.

Now, let me provide a brief update on progress in our development segment. Earlier this month, we executed a contract with a regional developer to sell 1,329 acres in St. Johns County, Florida, south of Jacksonville. This sale is planned in two closings with the first expected in late 2015 and the second in 2017 and is subject to the purchaser obtaining land use entitlements.

This planned sale is adjacent to a 600-acre tract that we entered into contract last year to sell to a national homebuilder, which we previously announced to you. The 600-acre sale will take place in four closings, with the first expected in the fourth quarter of this year, contingent on purchaser securing entitlements. Note, I can now disclose that the purchaser of the 600-acre parcel is Toll Brothers; one of the nation's leading homebuilders.

Toll Brothers is active in the Northeast Florida market and is currently advancing this project through the entitlements process. We consider our relationship with Toll Brothers to be a key strategic alliance that has the potential to grow in the future. With today's sale announcement, we now have approximately 2,000 acres in St. Johns County under contract with developers at development market pricing with multiple closings expected, contingent on entitlements over the next four years.

Also, in our development segment, we are excited that last week we entered into an agreement with Nassau County, Florida District Schools to provide land for the construction of a new K5 elementary school in the heart of our property in the East Nassau sector of the county, which is north of Jacksonville. The Nassau District School Board adopted an agreement that provides for the planning, design, and construction of an elementary school and a road and utilities to service it.

The school district's investment in our East Nassau planning area is estimated to be approximately $20 million and the school is expected to open in the fall of 2017. This is an important milestone, as we know from experience and market research that a school can be a very powerful driver of demand for residential real estate. Over the past few months, we have been focusing on master planning the wider area to optimize the location of the school and to program adjacent properties for complementary uses.

We have been coordinating with higher quality community developers and home builders to develop a strategy and are encouraged by the interest we are receiving. So, in summary, in the first quarter, we continued to advance our real estate strategy with the execution of a contract with a developer in St. Johns County, Florida and by reaching agreement with Nassau District Schools to construct a new K5 elementary school on our land in Nassau County, Florida.

For the balance of the year, we anticipate an improving run rate of sales based upon transactions in the pipeline and therefore, as we've noted, still expect 2014 results to be somewhat comparable to 2013. Now, let me turn it over to Jack Kriesel to cover Performance Fibers.

Jack Kriesel - *Rayonier - SVP, Performance Fibers*

Thanks, Chris, and good morning. During the first quarter, we made significant progress against our plan to qualify filter tow customers on the new cellulose specialties line. To date, we have about 75% of our volume qualified. We also successfully completed the annual maintenance shutdown at our Fernandina mill.

However, the quarter's earnings were negatively impacted, primarily by the timing of shipments and higher costs. On page 14, you see net selling prices for our two Performance Fibers product lines. Cellulose specialties price were down $51 a ton, or 3%, compared to the same quarter prior year, and $117 a ton, or 6%, from the fourth quarter of 2013, as expected.

Moving on to page 15 and looking at volumes, our first quarter cellulose specialties sales volume was approximately 19,000 tons below the first quarter of 2013, reflecting the timing of customer shipments as a result of our planned extended annual outage at the Jesup mill for boiler maintenance and lower production due to one-off equipment issues. Recall that we moved the boiler maintenance up from 2015 to better manage production and market dynamics.

The work involved the replacement of boiler tubes that are original to the 1981 boiler. The combined impact on production from the extended outage and the equipment issues have led to tight delivery schedules in the near-term that are requiring careful management of shipments. Overall, cellulose specialties markets remained healthy with an average annual demand rate of 3% or approximately 50,000 tons per year.

Demand for acetate remained solid while demand for ethers is growing 4% to 6% annually. We expect demand for high-strength viscose and specialty fibers to improve as the European automotive markets are slowly climbing back from the recent bottom. As a result, we continue to believe the cellulose specialties long-term demand drivers remains attractive.

With the recent capacity additions, primarily from our own new capacity, the cellulose specialty markets are currently in transition. We believe that our 2013 base volume will increase modestly in 2014. We continue to feather in new volume to reach the low-end of our previously announced 2014 volume guidance, but we'll do so only as the market will accept it without disrupting pricing.

Over the long-term, we expect to obtain our share of the market's growth. Costs for the quarter increased as wet weather continued to affect wood prices and cold weather impacted the price and availability of natural gas. In addition, costs increased as a result of the production issues and shift to higher cost cellulose specialties and commodity viscose.

Consequently, provided we reach the low-end of our volume guidance range, we expect operating income and EBITDA to be approximately 25% and 15% below the prior year, respectively. Now, let me turn it over to Ed.

Ed Kiker - *Rayonier - VP Investor Relations*

Thanks, Jack. The financial summary on page 16 provides updated 2014 guidance for key financial metrics by business unit. As we still expect the separation to be complete by our mid-year goal, we have not provided consolidated Rayonier guidance.

The business unit guidance shown on the summary table excludes estimated corporate expenses for each company. We expect that normalized annual corporate expenses after the separation will approximate $20 million for Rayonier and $25 million for Rayonier Advanced Materials. I'll now turn it over to Paul for final comments.

Paul Boynton - *Rayonier - Chairman, President & CEO*

Thanks, Ed. As you've heard, we're excited about the strength of the Forest Resources business, its best in class timberland portfolio and longer-term prospects for significant improvements in timber prices and mix as housing continues to recover. In Real Estate, we're confident that its strategic direction, premium, well-situated HBU properties, and improving demand will generate longer, long-term shareholder value.

Finally, despite a weak first quarter, we remain excited about the long-term growth opportunities for the Performance Fibers business with its recently increased high-value cellulose specialties capacity and market-leading capabilities. We're confident that this planned separation will position the new company, now named Rayonier Advanced Materials, to grow and to expand into the specialty chemical markets that are a good fit with its capabilities.

Yesterday, we announced the separation of Rayonier Advanced Materials is on track and commented on the progress we have made on milestones towards our mid-year goal. I'm very pleased to say that we're in the final stages of our Rayonier CEO search process and expect to announce the identified candidate in a couple of weeks. We're also making excellent progress on the capital structures for each company and are pleased that current debt markets are so favorable.

As we get closer to the separation, we'll announce both the final capital structures, which we expect to be generally consistent with our previous announcements, and the dividends for each company. We anticipate this earnings teleconference will be the last one for the combined Rayonier before we begin this exciting new chapter in Rayonier's 88-year history, with the spinoff of the Performance Fibers business and the creation of Rayonier Advanced Materials.

We anticipate the second quarter teleconferences in July will be conducted separately by the management teams of each company. I'm proud of what we've accomplished at Rayonier over its many years and I'm excited about the long-term prospects that each company has to create shareholder value.

As we have continued our transition toward separation, we are even more convinced that this is the right move at the right time for the Company and its shareholders. With that, I'd like to close the formal part of the presentation and turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mike Roxland, Bank of America Merrill Lynch.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Congrats on the progress you're making with this transition. Paul or Jack, can you talk about the progression of performance fibers pricing? I know that your guidance last quarter had indicated that prices would be down 7% to 8% this year, yet, you were only down 2.5% to 3% in 1Q, which implies more significant declines for the remaining quarters. Why is that the case? Is that just a matter of the way your contracts are structured with customers?

Jack Kriesel - *Rayonier - SVP, Performance Fibers*

Mike, this is Jack. That's really just timing related. We still expect the percentage as we communicated before, to be 7% to 8% down for the full year.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Right. So the back half or the final three quarters of the year showed more significant declines than what we saw in 1Q.

Paul Boynton - *Rayonier - Chairman, President & CEO*

Mike, this is Paul. Again, to Jack's comment, it's really just on the timing of shipments. In the first quarter, we always have a slower decline because we still have remaining shipments from the year prior coming in and so that will artificially lift that. As that balances out, the prices are set for the year and you'll see that consistent with the 7% to 8% that we previously communicated.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Got it. Appreciate that. Can you elaborate about the equipment issues you experienced at Jesup? Have those been rectified at this point?

Jack Kriesel - *Rayonier - SVP, Performance Fibers*

Yes. We had a series of issues at Jesup; all really one-off type things. Some of them were related to the power boiler, a particular line failed and we had some agitators fail. Whenever you have something like that happen on the power boiler, it requires you take the power boiler down and then you lose volume.

We also had some one-off issues around our B machine as well as our new C machine, as we're on the learning curve, particularly on the C machine. One thing we did during our mid-year shutdown last year, on our B line, was to put in a specific piece of equipment on the B drying machine that caused some problems. These have all been resolved and we look forward to coming out of our shutdown strong.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Got it. Obviously, on real estate, it mostly was impacted by the inclement weather. Chris, what gives you confidence that a bounce back is likely? Maybe you could give us just a sense of what you're seeing thus far in 2Q?

Chris Corr - *Rayonier - SVP, Real Estate*

Sure, Mike. Yes, traffic is back and the pipeline is filling. With the level of that activity, we're confident we're on track.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Got it. Good luck in the quarter.

Operator

Chip Dillon, Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

Best of luck as you guys split up. Will both companies still be headquartered in Jacksonville? Is there going to be a physical separation of the headquarters?

Paul Boynton - *Rayonier - Chairman, President & CEO*

Chip, to achieve a tax free spin, we have to have physical separation. The answer is yes, we'll both be located here in Jacksonville, but in different buildings.

Chip Dillon - *Vertical Research Partners - Analyst*

Got you. Okay. You mentioned the corporate expense for the companies together would be about $45 million annualized, which was a little less than the last couple of years. Probably, I would guess, it's because you had a good stock performance and that came in to the mix. Is it fair to say that the incentive compensation component that could come into the corporate lines would not be part of that or do you make some assumption for that?

Ed Kiker - *Rayonier - VP Investor Relations*

Actually, Chip, this is Ed. Our corporate expense the last several years has been running mid $30 millions. This does represent low to mid $30 millions, so this does represent an increment over our recent year run rate.

Chip Dillon - *Vertical Research Partners - Analyst*

It must be the way I do my model. I apologize. I probably include some other things. On a comparable basis, it's about $10 million more?

Ed Kiker - *Rayonier - VP Investor Relations*

Right. It depends on which year, but that's directionally correct.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. One quick question on the real estate, I think, if I heard you correctly, some of the entitlement work you've done in, I believe mostly Florida, you said there could be upwards of 2,000 acres in the next four years that could flow through the income statement at development values. Is something in the ballpark of like $20,000 an acre a good place to be? On average, would it be higher than that, lower than that?

Chris Corr - *Rayonier - SVP, Real Estate*

Chip, it's Chris. We think the range for development real estate in St. Johns County, Florida is in the $15,000 to $20,000 gross range. So, you're right.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. I got you. I know it'll be lumpy, but should we expect there to be much of that more in the back end of this period? Could it be in the front end or kind of evenly spread?

Chris Corr - *Rayonier - SVP, Real Estate*

The first closing we expect this year in the fourth quarter and the others will be spread throughout the balance of those three years.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. On Performance Fibers, I was hunting for my schedule here and I just haven't located it before you called on me, but could you remind us what the range of the higher end dissolving pulp sales are aimed to be this year? I think, ultimately, you were planning to be sold out by 2018. Are you concerned that could slip a little bit, given that you're now looking at the lower end of whatever that range is for this year?

Jack Kriesel - *Rayonier - SVP, Performance Fibers*

Chip, this is Jack. The range was up from the prior year. I think we communicated last time that we were looking at a 2017/2018 timeframe. I think we're still firm with that overall timeframe.

Chip Dillon - *Vertical Research Partners - Analyst*

Got you. Okay. Thank you.

Operator

Paul Quinn, RBC Capital Markets.

Paul Quinn - *RBC Capital Markets - Analyst*

On the commodity viscose and other, just seeing the pricing drop while benchmark fluff prices were up 2% and commodity DP was down only 1%. What drove that drop, that 6.5% quarter-over-quarter drop? Is that a mix change? If so, what is that mix?

Jack Kriesel - *Rayonier - SVP, Performance Fibers*

In our pricing, when you look at the drop off of viscose, it also includes off grade in that number, so, it's a little bit skewed. I think, generally speaking, the viscose pricing in the market has dropped around $25 or so quarter-to-quarter, down around [850 to 825] range currently, whereas the prior quarter, it was a little bit higher.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. The volumes expected for 2014 on that side?

Jack Kriesel - *Rayonier - SVP, Performance Fibers*

We're looking at in the range of about 140,000 to 150,000 total tons of commodity product. Now, that's going to be flexed between viscose and fluff, as we look at the margins for each, we will be producing both of those grades.

Paul Quinn - *RBC Capital Markets - Analyst*

Switching over to the resource section, trying to understand the China comment that you made, Lynn. You expressed high inventories in China, which is consistent with our information. You expect prices to drop in Q2, but then rebound in Q3. Is that the way I've got it?

Lynn Wilson - *Rayonier - EVP, Forest Resources*

Correct. We're seeing, in our New Zealand operations, pricing drop this quarter. But we still have contracts in place, so we don't expect to see the impact until Q3. But we do see that the market price has started to decline. We expect, by the time we get to end of third quarter, that pricing will rebound.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. That's helpful. Just in the Atlantic and Gulf side, you've given us guidance on a 10% to 15% increase in pricing. Just wondering where that's coming from or what gives you the confidence level of that, given that lumber prices are falling in Q2, here.

Lynn Wilson - *Rayonier - EVP, Forest Resources*

Number one, we've had increased capacity come online in our key markets. Markets are very local, Paul, so within that 75-mile radius. If you think about our Atlantic region, that coastal corridor between Savannah and Daytona, the markets are very strong with many mills running very strong, both on the Atlantic side, as well as in the Gulf states, East Texas and Louisiana.

We've had several mills, number one, either restart or increase their capacity. We've had markets really come back in certain key facilities. The other piece that's driving that is that wet weather. That really brings all of our pricing up, particularly on the low-end of the chip and saw. It really rises up all those prices.

Paul Boynton - *Rayonier - Chairman, President & CEO*

Paul, just a reminder. I'd like to add to what Lynn said, keep in mind that we operate a pretty flexible model between stumpage and delivery. As this wet weather is out there right now, Lynn and the team have done a great job of securing pricing beyond this period, for the year. That gives the team that confidence on where pricing's going for the balance of the year.

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Paul Quinn - *RBC Capital Markets - Analyst*

Great. Thanks for the additional color. Cheers.

Operator

Steve Chercover, DA Davidson.

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

First of all, on Performance Fibers, Jack said that Fernandina had its annual maintenance and Jesup, also, had that advanced maintenance. Are we going to see you running relatively full for the remainder of the year?

Jack Kriesel - *Rayonier - SVP, Performance Fibers*

Yes. Fernandina's outage was around a 16-day outage in late February, early March timeframe. They actually started up a little bit ahead of schedule and since then, have been running very strong. We see them operating continually through the year, as we do with Jesup. This shutdown with Jesup has been a staggered one, which is typical, because we have three lines there. Two of the lines are operating as we speak. The third line will be up and running in early to mid-May timeframe.

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

Okay. There's still some residual maintenance in the current quarter. Are you able to quantify the impact of the weather on specialty cellulose?

Jack Kriesel - *Rayonier - SVP, Performance Fibers*

The biggest impact is in the area of our fiber. Just roughly speaking, if you look at it from a year-over-year, quarter to quarter, the hardwood costs have come up dramatically, in the 25% to 30% range. That's the biggest impact. Obviously, it impacted natural gas supply, both in price and availability, as well as, with rail traffic out of the Northeast. There's a lot of delays associated with, not only our product, but supplies related to products coming into our mill.

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

If it would have been just a normal, wet winter, do think your results might've been $5 million higher? At a good ballpark?

Paul Boynton - *Rayonier - Chairman, President & CEO*

Yes. Steve, it's Paul. I'm going to quickly look. Yes. At least in that range, if not quite a bit above. I think $5 million at the minimum and maybe even closer to the $10 million mark.

Ed Kiker - *Rayonier - VP Investor Relations*

Particularly when you add energy into that.

Paul Boynton - *Rayonier - Chairman, President & CEO*

Yes, you look at energy and wood --

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

Okay, that's helpful. Switching gears back to real estate, it sounds like one of the competing REITs has now got some mega sites in both Florida and Georgia. Do you know how close they are to your sites? Do have kind of a first mover advantage or does that change the outlook at all for your sites in Jacksonville and Savannah?

Chris Corr - *Rayonier - SVP, Real Estate*

Steve, it's Chris. I know vaguely, I think, what projects you're speaking about and don't consider them primary competition to the sites we have. Ours in the Crawford Diamond industrial side, the mega site in Nassau County, Florida, is kind of a completely different proposition and then Bryan County, Georgia, the Belfast Commerce Centre where Caesarstone, our first user, is under construction on a 265,000 square-foot plant that is scheduled to open next year, is a different strategic location, as well. I don't these see those as big factors.

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

That's great. Any updates in terms of commitments on those sites? We appreciate what you told us on the residential front.

Chris Corr - *Rayonier - SVP, Real Estate*

No real update other than good traffic. We have good interest in both places. The state of Florida's economic organization, Enterprise Florida, has consistently marketed and been touring prospects at Crawford Diamond and the same is true for the state of Georgia and the Bryan County economic development organization at Belfast. That site's a construction zone right now, a lot of dirt, a lot of infrastructure in the ground.

The water and sewer and the utilities, the roads that are going in there will serve an additional 500 acres in addition to the 40-acre Belfast Caesarstone site. So, it's getting set up nicely. We've had good prospects and visits there, as well. We also have a marketing agreement with them, with an international broker, to raise exposure there, too. So, a lot of energy in marketing both places, a lot of energy in construction at Belfast.

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

Great. Best wishes to Hans, if he's on the line, and good luck with both enterprises going forward. Thank you.

Operator

Mark Weintraub, Buckingham Research Group.

Mark Weintraub - *Buckingham Research Group - Analyst*

On the development property sales, can you share with us the tax treatment on those sales? What would they likely be?

Ed Kiker - *Rayonier - VP Investor Relations*

Mark, this is Ed. The development properties would be in our taxable REIT subsidiary, so when we transfer those from our REIT to our taxable REIT subsidiary so we can undertake real estate development, we transfer those at fair value. So, they do have a higher tax basis than our historical book basis in most cases if not all. There would be some tax, although we have some other offsets.

We would have to have a substantial level of sales for there to be any significant tax from the sale of HBU properties. If we had some number of acres sold at very high development prices, we potentially could have some level of tax at normal statutory rates.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. Great. When you make that transfer, that initial transfer, at market price, that's because it's beyond the 10 years, so there's no tax impact at that point?

Ed Kiker - *Rayonier - VP Investor Relations*

No. The 10-year horizon related to the built-in gains tax, which is now gone, we're out of that built-in gains period. But when we do transfer properties to our taxable REIT subsidiary, that becomes your new tax basis and they are subject to income tax on any gains over that tax basis.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. When you're thinking about the distribution or the dividend from the business, would you be including the cash flows being generated from these development-type properties in the thought process or do you tend to base the dividend off of the income coming from harvesting activities?

Paul Boynton - *Rayonier - Chairman, President & CEO*

Mark, Paul, here. We certainly look, first and foremost, at our everyday income off of our harvesting activity on forest resources and then we factor in things we know when we can count on the real estate side of things. Again, a lot of that business is actually fairly predictable. Year-to-year, we've got a pretty good, constant flow of sales coming from rural and conservation.

We look at that first and foremost. Then, you have to say, okay, what do you want to look at on the balance of that and factor that into your dividend. We would tend not to be dependent on anything that we couldn't regularly predict into our dividend model.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. Helpful. Lastly, on the Performance Fibers business, can you share with us maybe how much volume was just delayed on the timing basis? The observation is that, actually, in each of the last three quarters, this quarter you were down 14% year-over-year in the cellulose specialties and if you take the last three quarters, you were actually down 14%.

What exactly is going on there? Was this quarter really just a function of delayed shipments? Is it that the overall market has been softer by almost that magnitude? Have there been share shifts?

Jack Kriesel - *Rayonier - SVP, Performance Fibers*

The delay is really kind of multiple folds. If you look at the conversion from AM to CS, you are going to have a changeover in that overall volume level.

Paul Boynton - *Rayonier - Chairman, President & CEO*

Mark, keep in mind, again, we've modified that C-line that Jack just talked about in that conversion. By doing that, we purposely took down the volume that A can produce from the 260,000, 270,000 down to 190,000. Part of the volume decrease that you're referring to certainly started last year when we made the final conversion and took, basically, that 80,000 tons of capacity out of the business.

So, that is by design and then the balance, as Jack referred to this year, is kind of a delay on shipments because of some of our extended shutdown and operational struggles.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. Thank you.

Operator

(Operator Instructions) Collin Mings, Raymond James and Associates.

Collin Mings - *Raymond James & Associates - Analyst*

Congrats on their new position, Ed. If you're listening, Hans, our best wishes to you. Lynn, you talked a lot about the timberland acquisitions. Thank you for that overview. Can you talk more about who you're seeing more of the deal flow coming from? Can you put a little bit more parameters around what you have under contract and just a little bit more detail on that acquisition front?

Lynn Wilson - *Rayonier - EVP, Forest Resources*

Certainly. Collin, good morning. One of the things that we're seeing is a series of packages coming out from the TIMOs. Those are throughout each of the regions. Those are multiple packages from multiple TIMOs. That's one side on the bid process. The other aspect that we're seeing internally from our team is the significant outreach and ramp-up of our efforts.

We're really focused on small, private landowners that are adjacent or within our target markets. Some of the properties that we've closed on are in that 5,000 to 10,000-acre range in both Florida and Georgia, with one small property in Washington state, that are within our current footprints, where we were aware of the private landowner that had a quality property for sale.

The ones that we've closed on so far have been in Baker County, Florida and a small property in Washington state and then a small property in Georgia. The other ones that we have under contract and are working towards closing are in East Texas and those are also from small private landowners.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. Great, Lynn. Thanks for that level of detail. Thinking about transaction pricing and recognizing all the caveat that no two pieces of timberland are the same. What do you think as far as what you're seeing in the pricing environment? Would you say kind of a comparable piece of timberland has gone up in value, call it in the US south, this year relative to last year or is there any way that you guys would think about that?

Lynn Wilson - *Rayonier - EVP, Forest Resources*

It's gone up slightly, Collin, year-over-year and I think that's consistent with what we're seeing in the wood markets, with sawlog pricing coming up, as well, and people's viewpoint. But it's only slightly up.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. That's helpful. Lynn, I know that we've heard a lot from the other timber REITs, and you mentioned it a little bit in your prepared remarks, about the Canadian investment in the US South. Can you update us on going forward how you think about partnering with some of those companies? I think we've heard from some of those players that they would be looking, as they make more investments in the US South, to look at trying to establish more supply agreements, things like that. Can you just update us on how you guys are thinking about that and those potential relationships?

Lynn Wilson - *Rayonier - EVP, Forest Resources*

Certainly. We have a unique approach within our own organization where we really try to work closely with potential customers so that they understand where our footprint is, what our current available volume is, what our outlook is, and provide them technical information and work with them behind the scenes very quietly. But because of our general mix of both stumpage and delivered contracts, we generally do not enter into those longer agreements because we see that our market capacity and our strategic key focus to capture price is in that stumpage model balanced with some delivered volumes.

For example, this year, as I referenced earlier and Paul commented on it, we're already over 70% sold in the majority of our markets because prices were so high the first quarter, which will carry us through right into the end of third quarter. But, we do look at our strategic customers and if a commitment is required for a new investment, certainly, we work with them one-on-one, but also, very confidentially.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. Appreciate that. Switching gears, Paul, just any thoughts from you or as you're having the conversations with the Board, on just ways to help support the share price of Rayonier Advanced Materials? I think we all acknowledge that there's likely going to be a shift in the shareholder base following the spinoff. Are there any thoughts about allocating some capital, recognizing the first priority's to pay down debt, but allocating maybe some capital through share repurchases or things like that, to help put some support on that Rayonier Advanced Materials?

Paul Boynton - *Rayonier - Chairman, President & CEO*

Yes, Collin, we'll get into more of that discussion with our new Board going forward. Certainly, the best thing we can do on that share price is to execute on our plans and that's where we're fully aligned and focused in on. We've got a lot of flexibility. We'll talk more about our debt structure coming forward. I think you guys will see that very favorably and again, it will give us a lot of flexibility to have a host of capital allocation options as we see fit. I think just kind of stay tuned on that one, Collin.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. Chris, on the 1,300 acres that you guys are working with as far as the developer, would that be a complete outright sale? Is there any potential to structure that as any sort of JV where you capture -- I know one of you guys have talked in the past about capturing some revenue off of a developer as they progress through the development pipeline there. Is it just an outright sale or is there some other moving pieces to that?

Chris Corr - *Rayonier - SVP, Real Estate*

Collin, it's a sale that is conditioned on the purchaser securing entitlements. It's an un-entitled site. They'll go through the entitlements process and then close in a couple of pieces, once successful.

Collin Mings - *Raymond James & Associates - Analyst*

Okay, okay. Thank you and good luck in the quarter.

Operator

At this time, I have no further questions. I'd now like to turn the call back over to Mr. Ed Kiker.

Ed Kiker - *Rayonier - VP Investor Relations*

I'd like to thank everyone for joining us. Please contact me with any follow-up questions. Thanks again.

Operator

Okay. Thank you. That does conclude the call for today. You may disconnect your phone lines at this time.
