THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

RYN - Q2 2017 Rayonier Inc Earnings Call

EVENT DATE/TIME: AUGUST 03, 2017 / 2:00PM GMT

OVERVIEW:

RYN reported 2Q17 sales of $195m and net income attributable to the Co. of $26m or $0.20 per share. Co. expects 2017 pro forma net income to be $50-55m.

CORPORATE PARTICIPANTS

Christopher T. Corr *Rayonier Inc. - SVP of Real Estate & Public Affairs and President of Raydient Inc*

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

Douglas M. Long *Rayonier Inc. - SVP of U.S. Operations*

Mark D. McHugh *Rayonier Inc. - CFO and SVP*

CONFERENCE CALL PARTICIPANTS

Clyde Alvin Dillon *Vertical Research Partners, LLC - Partner*

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

James Armstrong

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

Ketan Mamtora *BMO Capital Markets Equity Research - Analyst*

Mark Adam Weintraub *The Buckingham Research Group Incorporated - Research Analyst*

Paul C. Quinn *RBC Capital Markets, LLC, Research Division - Analyst*

PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's Second Quarter 2017 Teleconference Call. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time.

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

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Thank you, and good morning. Welcome to Rayonier's Investor Teleconference covering second quarter earnings. Our earnings statements and financial supplement 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 list some of the factors that may cause actual results to differ materially from the forward-looking statements we may make. They are also referenced on Page 2 of our financial supplement. Throughout these presentations, we will also discuss non-GAAP financial measures, which are defined and reconciled to the nearest GAAP measures in our earnings release and supplemental materials.

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

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

Thanks, Mark. Good morning, everyone. I'll make some overall comments before turning it back over to Mark to review our financial results, then we'll ask Doug Long, our Senior Vice President of U.S. Operations, to comment on our U.S. 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 are pleased to report solid second quarter results reflective of the quality and diversity of our timberland and real estate portfolio. In the second quarter, we achieved EPS of $0.20 per share and adjusted EBITDA of $86 million, which represents a significant increase from the prior year second quarter. While adjusted EBITDA in our Southern Timber segment was relatively flat, all 3 of our other key operating segments registered meaningful increases in adjusted EBITDA. In particular, our New Zealand Timber segment continues to generate strong operating results, which were further aided by timberland sales in the second quarter.

Our Southern Timber segment results reflect modestly higher volumes with lower average stumpage prices relative to the prior year quarter. Pricing in our Southern Timber segment was impacted by salvage volume from the West Mims fire as well as $1.1 million of related costs, of which Doug will provide some additional details as part of his remarks.

Our Pacific Northwest Timber segment results improved versus the prior year quarter, driven by increased sawtimber pricing and a more favorable species mix due to the Menasha acquisition.

Lastly, our Real Estate segment had a very strong quarter based on a higher number of acres sold and higher pricing.

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

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Thanks, Dave. Let's start on Page 5 with a review of our financial highlights. Sales for the quarter totaled $195 million, while operating income was $47 million and net income attributable to Rayonier was $26 million or $0.20 per share. Pro forma EPS was also $0.20 per share as we had no pro forma items in the quarter. Second quarter adjusted EBITDA of $86 million increased by roughly 90% relative to the prior year quarter adjusted EBITDA of $45 million, driven primarily by significantly higher results in our New Zealand Timber and Real Estate segments. As Dave noted, New Zealand results were positively impacted by a timberland sale, which contributed $23.8 million of adjusted EBITDA and $8.2 million of net income attributable to Rayonier, or approximately $0.06 per share.

On the bottom of Page 5, we provide an overview of our capital resources and liquidity at quarter end as well as a comparison to year-end. Our cash available for distribution, or CAD, for the first 6 months was $97 million compared to $57 million in the prior year period, primarily due to significantly higher adjusted EBITDA, partially offset by modestly higher capital expenditures.

A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on Page 8 of the financial supplement.

We closed the quarter with $137 million of cash and roughly $1.1 billion of debt. Our net debt of $932 million represented 20% of our enterprise value based on our closing stock price at quarter end.

I will now turn the call over to Doug to provide a more detailed review of our U.S. Timber results.

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Thanks, Mark. Good morning. Let's start on Page 9 with our Southern Timber segment. Adjusted EBITDA in the second quarter of $22 million was $5 million unfavorable to the first quarter, essentially flat compared to the same period in the prior year.

Second quarter harvest volume of approximately 1.4 million tons was 22,000 tons lower than the prior quarter, but 174,000 tons higher than the prior year quarter, primarily due to additional volume harvested from recent acquisitions. Overall, I would characterize harvest levels in the first half of this year as a more typical run rate as compared to last year, when we had accelerated harvesting early in the year due to some wet weather conditions.

As Dave mentioned, during the quarter, we were impacted by the West Mims fire in Georgia and Florida. In total, this fire spread over roughly 152,000 acres after starting at the Okefenokee National Wildlife Refuge, and affected approximately 10,000 acres of our neighboring ownership. Our crews, with the assistance of contractors and state and federal firefighters, did a remarkable of containing this fire for several months under pretty extreme conditions. I'm very proud of how they professionally and safely assisted government agencies in fighting this large wildfire.

Ultimately, we sustained damage to approximately 6,000 acres of plantations, which we are currently salvaging. We also incurred $1.1 million of costs in the quarter related to the fire, of which $800,000 was a write-off of pre-merchantable timber inventory and $300,000 was for firefighting costs. This fire salvage volume impacted our pricing in the second quarter, and we anticipate that it will continue to impact pricing in the third quarter as well.

Second quarter pine pulpwood prices of $15.62 per ton were 10% and 15% unfavorable compared to first quarter and the same period in the prior year, respectively. The decrease in prices relative to the first quarter was heavily impacted by lower-priced salvage volume, whereas the decline compared to same period in the prior year was largely due to continued ample supply from extended dry weather conditions.

Excluding the impact of fire salvage volume in the second quarter, we estimate that weighted-average pine pulpwood pricing was down roughly 5% versus the first quarter and 10% versus the prior year quarter. Pine pulp timber prices of $25.66 per ton were 3% and 5% unfavorable as compared to first quarter and the same period in the prior year, respectively. Excluding volume from salvage sales, pine pulp timber prices were up about 2% versus the prior quarter and roughly flat to the prior year quarter.

Regionally, we've continued to see some variability in sawtimber pricing, with lower demand for plylogs in our Gulf States region being offset by increased demand for export logs along the Atlantic Coast, which continues to be a growing market for us. Hardwood prices of $11.65 per ton were 6% and 7% higher than the prior quarter and the prior year quarter, respectively. In both cases, the increase in price was primarily due to favorable changes in product mix with some slight improvement in sawlog pricing.

Now moving to Pacific Northwest Timber segment on Page 10. Adjusted EBITDA in the second quarter of $5.5 million was $4 million unfavorable compared to the first quarter, primarily due to strong first quarter harvest volumes, and $700,000 favorable compared to the prior year quarter, primarily due to the higher sawtimber prices.

Second quarter harvest volume of 275,000 tons was 31% lower relative to the prior quarter and 3% higher than the same period in the prior year. Delivered sawtimber prices of $81.93 per ton were 9% and 10% higher from the prior quarter and the same period in the prior year, respectively.

We continued to experience improving export and domestic markets across all species in our Pacific Northwest segment. With the unfortunate fire season in British Columbia and the recent imposition of fire restrictions on harvesting in portions of Oregon and Washington, we believe that markets remain tight for the balance of the year. Delivered pulpwood prices of $39.38 per ton are 2% favorable to first quarter due to geographic mix and 8% unfavorable to the prior year quarter due to a combination of increased availability of residual chips from the open market and increased volume from Oregon, which generally commands lower pulpwood pricing.

Now Dave will review New Zealand Timber results. Dave?

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

Thanks, Doug. Page 11 shows results and key operating metrics for our New Zealand Timber segment. Our New Zealand Timber segment delivered another strong quarter, driven by continued strong market conditions as well as the timberland sale during the quarter. Adjusted EBITDA of $42 million was roughly $26 million favorable to both the prior quarter and the prior year quarter on the strength of higher domestic and export sawtimber prices as well as nonstrategic timberland sales totaling $24.3 million for roughly 9,600 productive acres of leased timberlands. These properties were deemed nonstrategic to Matariki, as they were geographically isolated from Matariki's core holdings and customers. Export sawtimber prices increased 2% and 16% compared to the prior year -- to the prior quarter and prior year quarter, respectively, due primarily to strong demand from China. Similarly, domestic sawtimber prices in U.S. dollar terms increased 1% and 11% compared to the prior quarter and prior year quarter, respectively, as a result of strong local demand for construction materials, a robust lumber export market as well as a modest increase in the New Zealand to U.S. dollar exchange rate.

Our Trading segment generated adjusted EBITDA of $1 million in the second quarter on sales volumes that were roughly 21% higher compared to the prior year period, due to increased volume from existing suppliers and stumpage blocks purchased from third parties, coupled with improving export market demand, which translated into a 15% average price increase relative to the prior year period.

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

Christopher T. Corr - *Rayonier Inc. - SVP of Real Estate & Public Affairs and President of Raydient Inc*

Thanks, Dave. Our Real Estate segment had a very strong quarter, with sales totaling $26 million, which consisted of roughly 7,600 acres at a weighted-average price of $3,356 per acre, excluding improved development. Adjusted EBITDA for the quarter was $21.5 million. Market interest remained strong, particularly in Florida and Texas, and our current pipeline of opportunities is robust.

Page 12 provides an overview of sales by category. The Improved Development category reflects our first closing in Wildlight, a 1.3-acre site for $425,000, on which the purchaser intends to construct an office building adjacent to the new Rayonier headquarters building.

Activity in the Unimproved Development category reflects a sale in Florida of 130 acres to a national homebuilder for $2.5 million, or roughly $19,200 per acre.

In the Rural category, sales totaled $5.5 million on approximately 1,700 acres at an average annual price of $3,178 per acre. This included a significant sale in Texas of 1,000 acres for $3,150 per acre.

In the Non-strategic and Timberland category, we sold 5,700 acres for an average price of $3,050 per acre, which included a conservation sale of 1,994 acres for $3,200 an acre as well as a timberland sale of 1,327 acres for $4,000 an acre. Both of those were in Florida.

Looking ahead, we have a strong pipeline of HBU opportunities with a number of prospects either under contract or in negotiation. In particular, we're excited about the pace of activity in our Wildlight community development project. We've recently announced the first 2 homebuilders for the project, and we look forward to providing additional news as the year progresses.

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

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Thanks, Chris. As noted in our earnings release, we're increasing our full year adjusted EBITDA guidance to $255 million to $270 million and our pro forma net income guidance to $50 million to $55 million.

With respect to our individual segments, we generally expect Southern Timber, Pacific Northwest Timber and Real Estate to achieve adjusted EBITDA in line with the original segment guidance provided in our Q4 2016 earning supplement, while we expect New Zealand Timber and Trading to contribute adjusted EBITDA significantly higher than our original segment guidance. Please note that in our earnings release, we have a detailed reconciliation of our adjusted EBITDA guidance to our pro forma net income guidance in section F.

As we look into the second half of the year, we anticipate continued strong performance in New Zealand export and domestic markets as well as strengthening sawtimber prices in the Pacific Northwest. With respect to our Southern Timber segment, we expect harvest volumes toward the higher end of our prior guidance, while near term product pricing will continue to be impacted by additional fire salvage volume and changes in regional mix as our summer harvest shifts more heavily to the Gulf States regions.

In our Real Estate segment, we expect to achieve our prior full year sales and adjusted EBITDA guidance; however, we expect relatively light closings in the third quarter followed by a strong fourth quarter. As we stated in the past, our Real Estate results will be lumpy from quarter-to-quarter as we seek to enter into transactions opportunistically in an effort to maximize long-term value.

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

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

Thanks, Mark. Overall, we're very pleased with the quarter and optimistic about our outlook for the balance of the year. While the sawtimber price recovery in U.S. South has been slower to materialize than most would have anticipated, we remain optimistic about the long-term prospects for the U.S. housing market and believe we are well positioned to capitalize on the recovery with great timberland assets located in strong markets. Despite softness in U.S. South, our overall performance has continued to improve based on the quality and diversity of our timberland and real estate portfolio. We continue to be intensely focused on active portfolio management while maintaining a disciplined and nimble approach to capital allocation.

Before we close our prepared remarks, I would also like to update you on the progress we've made on our Wildlight project. I'm pleased to report that we recently completed construction of our new headquarters facility and received the certificate of occupancy on June 1st. We've since successfully moved more than 100 employees into the new building, consolidating 2 of our 3 leased offices, with the third office scheduled to move in mid-August.

As we discussed before, we believe that having the company's management and operational personnel together in one office will promote more efficient communication and decision making as well as contribute to a stronger organizational culture. We are appreciative of the dedication and commitment of our team in achieving this significant milestone, and we're also excited about our new office serving as a cornerstone for the Wildlight development project. We recently announced the selection of 2 homebuilders, D.S. Ware and Dream Finders Homes, to build the first homes in Wildlight. We expect our first residential lot closings and the start of model homes in the second half of the year.

Lastly, construction of the Wildlight Elementary School is complete and it will open with approximately 600 students next week. Wildlight is an important catalyst for unlocking the value potential of our land holdings in Northeast Florida. We're very pleased with our progress to date on this project.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is coming from Collin Mings of Raymond James.

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

It's going to be starting with New Zealand. It looks like you guys both sold and bought some land in New Zealand during the quarter. Can you maybe just put a little bit more color on what drove the per acre pricing and the -- kind of the decision to sell some land in New Zealand? Maybe talk about what you acquired during the quarter there as well.

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

Sure. As it relates to the first portion of the question regarding pricing, you're going to always have a considerable variation in pricing based primarily on age-class distribution. And so just as we discussed in the U.S., we tend to not want to focus too much on the per acre valuation. I think the main driver in both what we bought and what we sold in New Zealand really had to do with the fit -- with our -- with the balance of our portfolio. We sold some isolated parcels that were both further away from our existing operations as well as having longer haul distances to customers, and the lands that we bought were also much more centrally located to our existing operations as well as having better logistics with customers and fit with our other harvest operations. So we saw it as a nice operational trade in terms of managing those assets.

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

All right. And then maybe just, Dave, looking ahead as we think about New Zealand, can you discuss the potential implications of your JV partner in the region looking to liquidate its fund and the potential acquisition opportunity that might present itself to you guys?

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

Yes, as you know, the shareholders of Phaunos Timber Fund, our minority partner in the New Zealand JV, recently voted to wind down the fund by liquidating its assets. And the Matariki stake is Phaunos' largest holding, comprising roughly half of the appraised value of the fund. And generally, our policy is not to comment on M&A until there is something specific to comment on, but of course, this is a unique situation that we're monitoring closely. And I'd say that at the right price, we would certainly be interested in consolidating our ownership position in New Zealand.

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

Okay. Then just one more from me and then I will turn it over. Chris, can you just maybe expand a little bit as far as the potential timing and volumes as it relates to residential or any other potential commercial real estate sales in Wildlight as you go through the remainder of the year? How does the -- kind of the arrangement you have worked out with Dream Finders and D.S. Ware as far the takedown of residential lots in Wildlight?

Christopher T. Corr - *Rayonier Inc. - SVP of Real Estate & Public Affairs and President of Raydient Inc*

Sure, Collin. Well, look at -- just to back up to some of Dave's comments, I think we've always focused on this fall as a significant kind of milestone with the opening of the Wildlight Elementary and the Rayonier headquarters building. So those strategies are catalysts for the project and so we're getting significant amount of traffic and people through the project now with the school opening, 600 students next week, the Rayonier office building, and that just enhances the exposure, along with the traffic that's already there on A1A and I-95. So as a follow through, all of that is promising and on track. In terms of overall construction timing, we're focused on the first set of residential lots. That's where Dream Finders and D.S. Ware will be starting model homes over the next 60 days or so. So as models and specs get going through the fall, we will be positioned for showing really well in the spring next year, the spring selling season. Those guys are committed to taking down a portion of that first set of about 80 lots that happen and then we kind of roll from there. We also got good interest on the commercial properties. You know that -- remember the way this works is we're focused on this kind of core commercial area to be a catalyst for the bigger residential because you're creating a quality of living here, and that little core village, we've got a number of properties that have active interest with the opportunities in various stages that'll be coming. So on track, the market remains good, the marketing center is scheduled to open soon, so ramping up well.

Operator

And our next question coming from George Staphos of Bank of America Merrill Lynch.

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

This is actually John Babcock on the line for George. Just to start out, I was wondering if you could talk about the corporate relocation there. Any potential impact on the income statement? And if there is an impact, how we should kind of think about that going forward?

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

In terms of impact of the financial statement, what we said last year is that we expected to save about $0.5 million in terms of the carrying cost of our new office building relative to the lease costs associated with our leased offices. So there is not going to be a material impact to our P&L as a result of the office move. Really the impact is more organizationally around the culture and having everybody under one roof, and faster and more efficient decision making.

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

Okay. And then can you remind us also with regards to the seasonality across the different regions from a harvest viewpoint as well as typical pricing trends?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Sure, John. This is Doug Long. Typically what we see is, as we go into third quarter and summertime conditions, that our operations in Arkansas are an area that we typically pick up volume removals, and so the Gulf States, we shift harvest over to that region. And that's typically one of our lowest priced regions for our stumpage sales results. And so that's why we've kind of given a little bit of guidance there towards that. So it's about the weather as much as anything. A lot of land we purchased there are on old farm fields. And until they dry out, it's hard to have harvesting. And then we see a shift. If you look back last year to our kind of financials and look at this year, you'll see it's a kind of a Q3 shift we see.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

I mean, I'd say, John, we generally go into the year with the expectation that we don't have a lot of seasonal variation, but invariably weather events will impact that to some degree. So, for example, last year we had a very strong Q1 that was weather driven. This year Q1 was, I would say, at a more normalized level. And so I think across all of our segments, if you look at kind of first half results, we're generally trending in line with our full year harvest volume estimates.

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

Okay. And then if you could talk about real estate. You mentioned that volume is maybe a little bit light in 3Q. I was wondering if you could provide some quantification there if at all possible. And then also generally, what's driving that? I assume it's timing, but if there is anything else involved there, that would be great.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Yes, it's really just timing. We had a very strong Q2. We had a number of larger transactions close in the quarter. Based on our current expectations, Q3 is going to be fairly light. We don't like to give -- look generally, we don't give quarterly guidance at all around real estate because it does tend to be pretty lumpy, and it's difficult to say with precision when transactions are going to hit. But our current expectation is that Q3 is going to be relatively light. So we did want to provide some color on that. But then we would expect to make up the balance of that in Q4. So again, not providing any specific guidance, but I would say we expect it's going to be heavily back-end loaded. We still expect to achieve full year guidance. So that should give you some color on sort of what the balance is there.

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

Okay, great. And then the last question I had is, I was just wondering if you could talk about some of the demand trends that you're seeing from -- on the pulpwood side from some of the paper, containerboard mills, et cetera?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Yes, I would say we're pleased that we've seen a lot of the mills coming back online, particularly we had a lot of downtime. Typically you do have in the spring, but then also some of the explosions and the things we had. So as you mentioned, containerboard in particular, I mean, those markets are all going well for our customers and so we are seeing continued demand there. It's really been more about downtime that we had from unexpected shutdowns and things like that in the first half of the year. So we're expecting stronger demand as we go into the second half of the year.

Operator

And our next question is coming from Paul Quinn of RBC Capital Markets.

Paul C. Quinn - *RBC Capital Markets, LLC, Research Division - Analyst*

Just -- maybe an overall question just on your timberland markets. It looks like New Zealand is obviously doing incredibly well here with a strong China demand, and Pacific Northwest is also benefiting from that. It looks like the U.S. South continues to lag. I guess, I'm just trying to understand where you're expecting pricing to go. Do you expect it flat for the remainder of the year on the sawtimber side? And I guess, because of the containerboard mills coming back, you'll see a little bit of improvement on the pulpwood side. Have I got that right, for the balance of the year?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Paul, this is Doug again. I'd say if you take out, I mentioned, kind of the impacts of the fires and you look at things within. I'll start with the grade side of things. We were up on the quarter kind of 2%, but relatively flat as you mentioned, I think, to prior year. And we see things have kind of stabilized at that point in time. And we see some upside possibly if the export market opens up for us in this area. But, again, that's a small market at this point in time in the South and growing. So I think on the sawtimber side of things, we think things have hit a pretty sustainable area we are at and have stabilized and have some opportunity for potential upside, but we also have some geographic shifts in our harvest. On the pulpwood side, our numbers are really impacted by the fire salvage, but we do see increased demand coming online as we go through the second half of the year. So I think we've seen those also stabilize at this point in time.

Paul C. Quinn - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And maybe a question for Dave. I mean lots of rumors right now around a potential Softwood Lumber Agreement between Canada and the U.S. And I'm hearing a quota at somewhere around 30%. How do you expect that to affect overall pricing for lumber and then also for your logs in your areas?

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

I guess I'll start, Paul, by saying that we don't have a seat at the table, so we are not as close to that as others. And so I think our perspective has always been to focus on the price elasticity in the markets, which we believe is heavily influenced by relative inventory builds. And when we look at and think about our operations and think about managing our portfolio, we're always looking to get into markets that are tighter because we believe those markets are going to have -- are going to experience more price elasticity as the market recovers. So irrespective of how the Softwood Lumber Agreement is ultimately resolved, we think that being in some of these tighter markets is going to be better for us, and that's really been our focus.

Operator

And our next question coming from Ketan Mamtora of BMO Capital Markets.

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

First question, I want to come back to New Zealand and M&A. There is a pretty big piece of land on sale in New Zealand. Can you talk about your interest in kind of growing in New Zealand outside of how things develop with your JV partner?

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

Yes, I mean, we're always interested in growing in all of our geographies for the right price and the right fit. And we have done some small acquisitions in New Zealand. The deal flow in New Zealand tends to be thinner than both the U.S. Pacific Northwest and the U.S. South. But we really take a look at everything. And so we don't like to comment on specific M&A, but we're pretty aware of the potential transactions in all these markets.

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

Okay. So is it fair to say that you all are open to both bolt-on and kind of larger acquisitions?

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

Yes, I mean, you look at over the last year, we did large -- we did a large acquisition in the Northwest. We did large acquisition in the U.S. South. And so where we have a good fit, we're certainly comfortable stepping out and completing that. But I'd say it really is going to be a function of the attributes of the property as well as the competitive process in acquiring those assets.

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

Got it. That's helpful. And then any impact on your wood baskets from West Fraser's recent acquisition of Gilman sawmills?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Yes, this is Doug again. Both Gilman and West Fraser are good customers of ours and so we delivered to 6 of the Gilman mills in the last year and probably 6 of the West Fraser mills also. So what we do think is the Gilman mills have a good reputation for maybe being undercapitalized. And so we think it is a good opportunity for West Fraser to take a look at those mills and consider how they might deploy some more capital on those. And so we're looking forward to seeing how West Fraser moves forward with them. We have a great work relationship with West Fraser and so we look forward to expanding that with them.

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

Got it. That's helpful. And then I just want to come back to kind of just housing in general. It seemed like you were off to a pretty strong start in 2017. Notwithstanding June numbers, Q2 seemed like had slowed considerably. As you see, can you just talk about kind of what your expectations are? And has that changed from what it was at the start of the year?

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

Yes, I think that our focus is less on kind of the quarter-to-quarter and really more in being prepared for the -- at a more macro level, the broader recovery. And so we've always said, whether that takes 18 months or a few years to really get cranked up, we want to be ready for that. And I think that a lot of our activity on the M&A front has really been designed to make sure that we've got some dry powder with respect to merchantable timber inventory that we can bring to market. And we're really more focused on kind of that longer term trend recovery than we are necessarily the pace of the recovery.

Operator

And our next question is coming from Mark Weintraub of Buckingham Research Group.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

Just a couple quick ones. I just wanted to confirm, I assume that the land sale, the New Zealand land sale, that had not been in prior guidance and now is, is that correct?

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Yes, that's correct.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

Okay. And is it fair to say that New Zealand has maybe been -- the timber market is a little bit stronger than you would have expected, the Pacific Northwest may be a little bit stronger and then the U.S. South may be not quite as strong. Is that a fair assessment?

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Yes, I think that that's a reasonably fair assessment, although our expectation for the South is still reasonably consistent with our initial guidance going into the year. I think kind of going into this year, we had generally guided to a relatively flat pricing. And I think that, that's what we're seeing with some of the variability really being more driven by fire salvage volume and some regional mix.

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

And I would agree with that statement.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

And you mentioned that there is potentially a little bit more in the way of exports from the U.S. South, which seemed to be -- to take advantage of kind of the spreads that are developing. I mean, can you also see that on the margin in the U.S.? Or is it just the transportation costs are too high and you really need the facilities to be built so that, that sawtimber gets converted where it's cut? Or are there ways to build some transportation networks in the U.S. that can start taking advantage of what are widening spreads?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Yes, this is Doug. We've been pleased with the kind of growth we've seen in the U.S. South from the export markets. And as you say, a lot of it has to do with the backhaul going back to China, and the USDA's Foreign Ag Service just reported that as of May, about 440,000 tons of logs had been exported from the South. So if you look at that as an annualized run rate, that's about 1 million tons. And that fits in well with kind of our market entails, but of that, there is still a wide number of containers that are still available that are going back empty. So we think there is plenty of room for growth there. And there is a premium to the domestic market even with that -- all the haul with China. So there is still room for growth in that markets, and we continue to get demand for it.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

And I guess, the possibility of wood moving from the U.S. South to -- and really kind of the markets, they overlap each other in different places. I guess, I'm just a little surprised that the markets have continued to move a little bit out of sync. I would have thought that there would have been dynamics at work that would have helped pull up the U.S. South as we start seeing improvement in the Pacific Northwest. Is it just that the geography is such that it just doesn't work that way?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

I would say one of the things is that where we've seen price increases for our sawtimber, particularly, have been along the Atlantic Coast. So regionally there are differences when you start to look at how prices were impacted. And so if you -- you can look at some of the latest Timber Mart-South data and see where some of the higher pricing have been in that Florida and Coastal Georgia region. So we do see some impacts at a more micro market along the Atlantic Coast where the export options are operating.

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

The other thing to keep in mind, Mark, is that in China, the Southern volume is really competing more in Western China, whereas in Pacific Northwest volume is in a different geography. So you don't -- there is not as much sort of pure market overlap in China as you might expect.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

Okay. And maybe one last quick one too. If something were to come about in New Zealand with the JV, just remind us, if you would, do you pay taxes on income generated in New Zealand? Or is that also treated favorably from a tax perspective like the U.S. timber income?

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

It's not -- New Zealand is subject to a corporate tax rate. However, we have a buildup of some NOLs and some structuring that's taken place with respect to debt that allows us thus far to have a fairly efficient operation from sort of a tax leakage standpoint. So when you see our financials, we've got GAAP tax expense, but relatively modest tax -- or excuse me, cash tax expense.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

Okay. Great. And then presumably when you go through the NOLs, et cetera, then you -- it would revert to the relevant tax rate?

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

That's correct.

Operator

And our next question is coming from Chip Dillon of Vertical Research.

Clyde Alvin Dillon - *Vertical Research Partners, LLC - Partner*

Just wanted to get clarification on the New Zealand sales. I know that you all recently created a number, I think $20 million, where if land sales were north of that, you would not include it in adjusted results. And my guess is that you did -- you kept the New Zealand sales even though it was over $24 million because it was more than one? Or could you explain your thinking behind that?

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Yes, really there were 2 sales, but the vast majority of it was 1 sale, which did exceed that $20 million. We define large dispositions as transactions that exceed the $20 million in size, but also those that do not have a demonstrable premium relative to timberland value. And recall that we created this category really in order to maintain the flexibility to monetize timberland assets and timberland prices for capital allocation purposes without distorting that recurring earnings and cash flow. However, timberland sales that occur at premium valuations have always been reported as part of our segment operating results either in the New Zealand segment or the Real Estate segment. So with respect to this New Zealand timberland sale in the second quarter, we felt as though the premium achieved was such that it significantly exceeded our timberland hold value and, therefore, the transaction did not meet our definition of a large disposition. That said, recognizing this transaction was somewhat unique and not the type of sale that we see regularly in New Zealand, we did provide details on the net income and EBITDA impact of the transaction. So to put the value in context, recall that when we increased our equity stake in the New Zealand joint venture last year, we did so at an implied value of $15.40 per acre. Our New Zealand timberland sales in the second quarter transacted at a price of about $25.20 per acre. That's roughly a 64% premium to that investment basis when we recapitalized the JV last year. So even though this was a large transaction, we felt that the premium achieved precluded its characterization as a large disposition. And really in many respects, we saw this transaction similarly to the Townsend Bombing Range sale last year, which totaled about $48 million at about $2,700 per acre in the South. Due to the premium on that transaction, we similarly did not characterize it as a large disposition. So we think we're being consistent and transparent in our approach to this, but that's really kind of how we thought about it.

Clyde Alvin Dillon - *Vertical Research Partners, LLC - Partner*

Okay. I got you. So to say it differently, it was over $20 million but it had HBU, and you were very clear when you made this definition that if it had HBU, you would count it. And that makes sense given that you have all those acres in Florida and Georgia that we should see flow through over the next decade. Then thinking about the New Zealand situation, and I might have missed something here, but as I understand it, the owner, I think, of all of the minority position or most of it, I think you said had voted to liquidate. And I know at least in the United States and most states, when you are a minority investor in something that's essentially closely held, which the joint venture is, typically at the end of the day things can get resolved by a judge because the state -- certainly U.S. law recognizes that there is not really an open market for half a house in a divorce proceeding or for -- if 3 kids are inheriting a beach house, there has to be some arbitrator and typically if they can't get together, a judge does. And so I'm just thinking, what is sort of the process for the New Zealand, not that you have to reveal everything, but is that sort of one option that could come about if you guys have too big of a bid/ask spread, where it goes to some kind of a third-party under some kind of legal proceeding to determine a value, if you decide to move forward?

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

Yes, really it's -- this is a situation that's really going to be based on the decisions of our JV partner, Phaunos. And there are plenty of examples out there in the timberland environment where you have had similar minority interests that have sold either privately or in a more public auction format. And so it's highly unlikely that something like this would get resolved in a judicial manner as you are describing. We see it really as a market transaction. And the ball is really in Phaunos' court in terms of how they want to proceed, both from a timing and form standpoint.

Clyde Alvin Dillon - *Vertical Research Partners, LLC - Partner*

And just to be fair, one reason it might not go that route is, I take it there is no real put option they would have at all, right? You would have to -- you have no obligation to buy that interest out, is that fair?

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

That's correct.

Operator

And our next question comes from James Armstrong of Armstrong Investment Research.

James Armstrong

My first question is on the salvage volume. How much salvage volume in tons roughly is left? And how long do you think it will take to complete that salvage? Will you get it all done by the third quarter? Or is that likely to bleed into the fourth quarter and beyond?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

No, I believe we'll get this done in the third quarter if the weather cooperates with us. But in total, we had approximately 200,000 tons of salvage volume and maybe a little bit more. We're still evaluating as the weather continues through and as we go forward. And of that, in the second quarter, we've done approximately 70,000 tons of salvage. So we still have a lot of salvage volume to work through in the third quarter. So it impacts -- we eventually had $1.1 million impact kind of on the write-off on the fire cost, but then also there is the impact in the difference in value between what's salvaged for and what we would've got if we'd been harvesting green timber. And that can be somewhere around $3 million difference in kind of pricing that were impacting there too. So we've had a pretty considerable impact of this fire on our Florida resource unit. But we should work through that in the third quarter.

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

And, James, recognize too that we're not the only landowner affected. And so you've got some broader market implications, and we don't really have a good feel for the timing of other landowners.

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Yes, there was approximately 32,000 acres, I believe, was burnt outside of the Wildlife Refuge. So quite a few other folks also incurred losses.

James Armstrong

Has the fire risk subsided in that area? I mean, in other words, is the risk now gone and you now just need to salvage it? Or could there be further fire in the region?

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

No, it's absolutely -- as soon as the fire -- we got 20 inches of rain essentially in a couple of weeks, so the fire risk has gone way down to the point now where it's impacted ability to salvage it. So we went from extreme drought to flooding conditions in a matter of weeks. So thankfully, the fire conditions are definitely down in this area now; the drought has been broken.

James Armstrong

Okay. Awesome. Switching gears, do you -- to New Zealand and the export market, do you see any evidence that the mix of product in China is changing. Specifically, is the region demanding higher-quality logs? On the other end, are you seeing any pulpwood demand out of China yet?

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

We see pulpwood demand really more out of India than we do in China. And I think with the China market, recognize -- I'd say probably one of the biggest drivers in terms of the change in mix has been some of the substitution that we've experienced where radiata has taken market share away from domestic supply in China. And you'll recall from prior calls, the Chinese put in place a ban on the harvest of native forests in Northeast China. And that had a big impact on domestic supply. So we've seen a number of ripple effects in terms of substitution from that.

James Armstrong

Fair enough. And then lastly on the Real Estate segment, the nonstrategic realizations were up quite a bit. Should that continue as we go into the back half of the year? Just wondering how the mix will change.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Yes, really it's -- that's just going to be heavily driven by individual transactions. And so I wouldn't put too much weight into 1 quarter. But I would say, generally speaking, we have seen a positive trend in pricing on our HBU sales.

Operator

(Operator Instructions) And our next question is from Mark Weintraub from Buckingham Research Group.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

Just 2 quick clarifications, if possible. First, and I apologize if I missed something said before, but on the New Zealand sell, so was there much in the way of HBU property? Or is that more reflective of the New Zealand timberlands, just the values of the New Zealand timberlands having been increasing in the last year?

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Well, it's more a statement of our perspective on premium relative to our hold value. And so typically, when you see a big disconnect between hold value and transaction price in the U.S., it is in HBU end use. In New Zealand, because it's largely a leased land regime, I wouldn't say that there is necessarily HBU uses that are typical in New Zealand, but again, we saw what we felt was a pretty wide spread to our hold value. So it's more focused on the premium and less focused on the HBU end use.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

Okay. And then on the $3 million difference on salvage pricing that was referenced, was that estimate for the total 200,000 tons or a portion of it? I wasn't quite clear on that.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

That was for the entire 200,000 tons, an estimate based on difference.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

Got it.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Effectively, Mark, we're saying that there were $1.1 million of real costs associated with the fire, but really there is also a price spread that we're seeing relative to market value of greenwood on the salvage volume that we're selling. And that's the $2 million to $3 million that Doug referenced.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

Right. And so $1 million of that showed up in the second quarter, and so presumably...

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

No, no, no, they are 2 different things. You got $1.1 million of cost, and that was an $800,000 write-down of pre-merchantable timber inventory and about $300,000 of firefighting costs. But then on the top line, we're experiencing about $2 million to $3 million of revenue hit relative to what we would've sold that volume at, at sort of market greenwood prices.

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

Basically, we expect it to be over the Q2 and Q3 time frames.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

But those (inaudible) values were still generally above depletion rates there. So again, it's an impact to the P&L, but it's not a write-down or a casualty.

Douglas M. Long - *Rayonier Inc. - SVP of U.S. Operations*

Not a direct cost.

Mark Adam Weintraub - *The Buckingham Research Group Incorporated - Research Analyst*

And I just took 70 over 200, which I -- so I took 1/3 of the $3 million and said, so probably about $1 million in the second quarter.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Well -- but, again, it's just going to show up on the price per ton line and not as a sort of extraordinary cost. We're realizing lower prices on that salvage volume wood than we would for greenwood.

Operator

We show no further questions in queue at this time.

Mark D. McHugh - *Rayonier Inc. - CFO and SVP*

Great. Well, thanks very much for your time this morning. And if you have any follow-up questions, please feel free to reach out.

Operator

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