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RYN - Q3 2016 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 3Q16 sales of \$171m, net income attributable to Co. \$39m or \$0.32 per share.



CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome and thank you for joining Rayonier's third-quarter 2016 teleconference call. At this time, all participants are in a listen-only mode. (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 McHugh - *Rayonier Inc. - SVP, CFO*

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

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

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

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

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

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



We are pleased to report third-quarter pro forma net income of \$41 million, or \$0.33 per share, reflecting solid operational performance, particularly from our Real Estate and New Zealand Timber segments. Our Real Estate results were driven by a \$48 million sale of timberlands to the Department of the Navy for just over \$2,700 per acre, which was part of the Navy's expansion of the Townsend Bombing Range in Georgia.

The New Zealand Timber segment benefited from continued strength in both domestic and export markets.

In our Southern Timber segment, unfavorable weather conditions continued to impact harvest operations, resulting in lower volumes. In our Pacific Northwest Timber segment, results reflect lower harvest volumes, partially offset by improved domestic and export prices in part driven by our newly acquired properties in Oregon.

Although we continue to experience a slower than expected recovery in US sawlog prices, the balance and diversity of our portfolio has allowed us to deliver strong overall performance. Based on our year-to-date performance and expectations for the balance of the year, we are increasing our 2016 adjusted EBITDA guidance to a range of \$228 million to \$235 million, well above our prior guidance of \$195 million to \$215 million.

As we've said in the past, we will continue to optimize our business plan and capital allocation priorities to deliver the best long-term value for our shareholders in light of prevailing market conditions.

And with that, I'll turn it back over to Mark for a brief review of our financial results.

Mark McHugh - Rayonier Inc. - SVP, CFO

Thanks Dave. Let's start on Page 5 with our financial highlights. Sales for the quarter totaled \$171 million while operating income was \$50 million and net income attributable to Rayonier was \$39 million, or \$0.32 per share.

On a pro forma basis, net income was \$41 million, or \$0.33 per share. The pro forma adjustment for the third quarter reflected \$1.2 million of costs related to shareholder litigation.

Third-quarter adjusted EBITDA of \$87 million was well above the prior quarter and the prior-year quarter primarily due to stronger results in our Real Estate and New Zealand Timber segments, partially offset by lower volumes and adjusted EBITDA in our US Timber segments.

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 prior periods. Our cash available for distribution, or CAD, for the first nine months was \$123.5 million compared to \$101 million in the prior-year period, primarily due to significantly higher adjusted EBITDA. A reconciliation of CAD to cash provided by operating activities and other GAAP metrics is provided on Page 9 of the financial supplement.

We closed the quarter with \$110 million of cash and roughly \$1.1 billion of debt. Our net debt of \$955 million represented approximately 23% of our enterprise value based on our closing stock price at quarter end.

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

Doug Long - Rayonier Inc. - SVP US Operations

Thanks Mark. Good morning.

Let's start on Page 10 with the Southern Timber segment. Adjusted EBITDA in the third quarter of \$18 million was \$3.5 million unfavorable compared the second quarter and \$7 million unfavorable compared to the same period in the prior year due primarily to decreased volume. Third-quarter volume of 1.1 million tons was 8% lower as compared to second quarter and 23% lower in the same period in the prior year.

A decrease in harvest volumes was driven primarily by two factors. First, we experienced extreme wet weather conditions in Texas and Louisiana, which restricted our ability to harvest in that region. Conversely, we experienced unseasonably dry weather in certain Eastern markets, which led to high customer inventories and tight quotas on volume. We opted to curtail harvest in the East in order to avoid selling into soft market conditions.

Pine pulpwood prices of \$17.36 per ton were 5% below second-quarter prices, and 6% above the same period in the prior year. The fluctuations in pulp prices were largely due to geographic mix.

Pine grade prices of \$26.17 per ton were 3% below second-quarter prices and 4% below the same period in the prior year. The reduction in sawtimber prices was also a result of geographic mix, more specifically heavy rain in the Gulf states reducing the volume of saw timber from this higher-priced region. Absent the impact of geographic mix, our sawtimber prices have remained relatively stable over the past few quarters.

Now, moving to the Pacific Northwest Timber segment on Page 11, adjusted EBITDA in the third quarter of \$3.4 million was \$1.4 million unfavorable compared to second quarter and \$3.9 million unfavorable compared to the prior-year quarter due primarily to lower harvest volumes in response to soft export market conditions. Third-quarter harvest volume of 241,000 tons was 10% lower as compared to second quarter and 32% lower than the same period in the prior year. These reduced harvest volumes were partially offset by favorable sawtimber prices. The average sawtimber price of \$76.69 per ton was 3% higher than both the second quarter and prior-year quarter due to an increase in sawtimber from our newly acquired Oregon property, which tends to command higher prices than our Washington assets.

Now Dave will review New Zealand Timber results.

Dave Nunes - Rayonier Inc. - President, CEO

Thanks Doug. Page 12 shows results in key operating metrics of our New Zealand Timber segment. We continue to be pleased with the operating performance of our New Zealand Timber segment, which delivered another solid quarter. Adjusted EBITDA for the third quarter of \$12.6 million was \$3.8 million unfavorable compared to the second-quarter result of 11% lower harvest volumes, and \$6.5 million favorable compared to the prior-year quarter due to significantly higher domestic and export product prices. We achieved this increase in adjusted EBITDA despite 23% lower volumes relative to the prior-year quarter.

Export prices increased 18% compared to the prior-year quarter, primarily due to strong demand from China while domestic sawtimber prices increased 25% in US dollar terms as a result of strong local demand for construction materials as well as the rise in the New Zealand dollar to US dollar exchange rate.

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

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

Thanks Dave, and good morning everybody.

Moving on to Page 13, the Real Estate segment had a strong third quarter with revenue totaling \$61 million on the sale of nearly 24,000 acres at an average price of \$2,569 an acre. Unimproved development sales totaled \$1.4 million, which was comprised of a 73-acre tract in St. Johns County, Florida for approximately \$18,500 an acre. This was our third sales since last year to Toll Brothers, a national homebuilder of property with approved land-use entitlements allowing for residential development.

In the rural category, sales totaled \$6.4 million on approximately 2,100 acres at an average price of \$3,082 an acre. This included one sale in Texas of almost 560 acres at \$4,650 an acre, and another in Louisiana of 325 acres for \$2,000 an acre.

Finally, in the nonstrategic and Timberland category, sales totaled \$53 million on approximately 21,500 acres at an average price of \$2,465 per acre. Sales in this category were dominated by a \$48 million transaction in Georgia totaling roughly 17,800 acres for \$2,720 an acre. The property,

located approximately 40 miles south of Savannah, was purchased under the threat of condemnation by the US Department of the Navy to expand the Townsend Bombing Range, which supports multiple branches of the US military. This was a unique transaction that was evaluated by the Navy for several years.

Excluding the large sale in Georgia, we sold 3,700 acres of nonstrategic timberlands at an average price of \$1,200 an acre, including the sale in Louisiana of 2,900 acres at roughly \$1,100 an acre. This property had very low productivity and was only 30% plantable.

In summary, we remain highly focused on unlocking the long-term value of our HBU development and rural property portfolio. We continue to be encouraged by the market interest that we are receiving at our Wildlight project north of Jacksonville. Construction of the Wildlight Elementary School and our new Rayonier office building remain on track for opening in the second half of next year, along with key parcels for sale to developers and homebuilders. For those of you that are able to join us during next week's investors day, we look forward to the opportunity to show you the site and report on progress to date.

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

Mark McHugh - Rayonier Inc. - SVP, CFO

Thanks Chris. As we noted in our earnings release, based on our strong performance through the first nine months, we are increasing our full-year adjusted EBITDA guidance to a range of \$228 million to \$235 million. As we look to the fourth quarter, we expect pricing in all of our timber segments to be relatively flat for the balance of the year, and we will continue to optimize our harvest flows relative to market conditions to drive long-term value.

Based on our year-to-date volumes and expectations for Q4, we are revising our full-year volume guidance to 5.3 million tons in the US South, 1.1 million tons in the Pacific Northwest. This compares to prior volume guidance of 5.8 million tons to 6 million tons in the South and 1.1 million tons -- I'm sorry, 1.3 million tons in the Pacific Northwest. Guidance for New Zealand remains at 2.2 million tons.

Simply put, we are exercising our discretion to pull back harvest volumes in response to weaker than anticipated market conditions. However, we believe that these volume curtailments will increase our harvest flexibility going forward and also increase the long-term value of our assets.

In summary, while we continue to experience relatively lackluster growth in sawtimber prices in both the US South and the Pacific Northwest, we've enjoyed an extraordinarily strong year in our New Zealand and Real Estate segments, which is driving our increased EBITDA guidance. This is a testament to the overall strength and diversity of our portfolio.

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

Dave Nunes - Rayonier Inc. - President, CEO

Thanks Mark. Overall, we are very pleased with our performance for the quarter and the tremendous dedication of our employees in achieving these results. Nevertheless, we continue to actively seek out ways to improve both our organization and our portfolio. To this end, I wanted to touch on some other recent events at the Company.

Earlier this week, we implemented a restructuring of our finance and IT organizations. This restructuring is the culmination of an efficiency project that's been underway for several months which was conducted by an internal project team in consultation with outside advisors. We also announced changes to our legacy defined-benefit pension plan under which we will be freezing additional benefit accumulation beginning next year. Together, we expect these two initiatives to drive approximately \$5 million of G&A cost savings on an annual basis, as well as flatten our organizational structure to promote better teamwork and collaboration.

We also made progress in the quarter on continuing to upgrade our Timberland portfolio. Specifically, we recently agreed to sell 62,000 acres of Timberland in Alabama and Mississippi for \$120 million in three separate transactions. In October, we closed on two of these transactions totaling 37,000 acres for \$78 million, with the remaining transaction of 25,000 acres for \$42 million scheduled to close in January of next year. Per our new disclosure practices rolled out earlier this year, these large dispositions will be excluded from our adjusted EBITDA. Consistent with our second-quarter sale in Washington state, these large dispositions are aimed at raising proceeds for capital allocation purposes, evening out our age-class distribution and ultimately helping us to upgrade our overall Timberland portfolio.

In addition, we closed on the acquisition of 37,500 acres in three separate transactions in Texas for \$77 million. These are highly productive and mature properties with an average age of roughly 15 years. They are located in strong markets and are highly complementary to our existing Southwest assets.

Lastly, I'd like to remind you that we will be hosting an investor day on November 9 and 10 next week. We look forward to showcasing portions of our Southeast Timber portfolio, introducing you to members of our timber and Real Estate teams, and providing additional details on our Wildlight development project north of Jacksonville. We are excited about the agenda and we look forward to your participation.

And with that, 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). Chip Dillon, Vertical Research Partners.

Chip Dillon - Vertical Research Partners - Analyst

Yes, and good morning. Dave, if you could talk a little bit about the -- or two things. You mentioned the acquisition of Texas, lands in Texas. Did you say those were two transactions, and when did they close or when do they close?

Dave Nunes - Rayonier Inc. - President, CEO

They were three transactions, Chip, and they all closed in the third quarter.

Chip Dillon - Vertical Research Partners - Analyst

Okay, so they will be in there. Okay, got you.

Dave Nunes - Rayonier Inc. - President, CEO

Two of them were negotiated, one was a bid.

Chip Dillon - Vertical Research Partners - Analyst

Okay, got you. And then you talked about the \$5 million cost-saving program that will at least impact SG&A. Could you tell us, just remind us again, how you're getting those savings? And when should they flow through? Should we see all five of them for -- all of it starting January 1, or will it kind of phase in next year, and we see it all in 2018?



Mark McHugh - Rayonier Inc. - SVP, CFO

This is Mark. I would say that it would phase in over the course of 2017 but, you know, we do expect to get most of it in the near term. In order of magnitude, it's roughly kind of half in the pension savings and half in the organizational restructuring.

Chip Dillon - Vertical Research Partners - Analyst

Okay, got you. Okay. And then last question is on the Western Timber front. You mentioned soft export markets. Any view as to how that may or may not be changing, either from what you see on the ground in New Zealand or on the West Coast as you look into 2017, or let's say the fourth quarter and into 2017?

Dave Nunes - Rayonier Inc. - President, CEO

There's a nuance to that. The reference to soft export prices really had more of a statement in the beginning of the third quarter, and we did see export prices pick up as we moved through the third quarter.

I think one thing that's consistent with both the Northwest and New Zealand that we are seeing is there's been a pretty marked decline in the harvest of timber in China, domestic timber in China. And so while demand has been fairly stable there, there's been a pretty large decline in domestic supply. So, that's helped both New Zealand and the Pacific Northwest in terms of demand for our logs. And then I think perhaps offsetting that a little bit is just some of the currency issues which affect the Northwest differentially.

Chip Dillon - Vertical Research Partners - Analyst

And I said last question, but one sort of last question is, in the Southeast, I know most of the impact seems to be further up the coast. But did Matthew -- has that or is that affecting your ability to sell what you thought you would in the fourth quarter? (multiple speakers)

Doug Long - Rayonier Inc. - SVP US Operations

This is Doug Long. I'll take that question. Hurricane Matthew did come pretty close to our Saint Augustine properties, and around that area, we experienced about 2,000 acres of damage in recently thinned plantations. And so, with respect to that, we've had to shift crews into salvage mode and then start to work on salvaging that operations. So we will slow down harvest in some of our planned clearcuts and work to get those salvaged. And with that, we do expect to be some impact on pricing going into Q4 just as we salvage that wood. It's often more difficult, as you can imagine. It's twisted and bent and leaning, and it takes longer to harvest, and so we will see some slowdown in volume, as you suggested, as we go into salvage mode. But overall, we are offsetting wood we would've been cutting, so it's not particularly material from a total value to the estate, and we are looking at something less than \$0.5 million impact.

Chip Dillon - Vertical Research Partners - Analyst

Okay. \$0.5 million. Great, that's very helpful. Thank you.

Operator

Mark Wilde, Bank of Montreal.



Mark Wilde - *BMO Capital Markets - Analyst*

Hi Dave. I guess a question for either you or Doug. Just on the pullback in the harvest volumes, it strikes me that's a pretty dramatic pullback in fairly short order. And I usually think of this stuff is a little bit stickier. I wondered if you could address that, and then if you have any view on sort of where harvest volumes may be in 2017.

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

Thanks Mark. We hear a lot about -- think about timber kind of at a real global level, there's a lot of discussion around the ability to defer harvest to preserve value on the stump being one of the key investment attributes in timber. But I would suggest that, as we discussed before, this flexibility is, unfortunately, exercised a lot less often than you hear it touted. And there is sort of a cynical adage that, when times are good, you cut more timber; when times are bad, you cut even more timber. And while that's a little tongue-in-cheek, that's the kind of behavior that we have sort of seen in this sector.

And we are really trying to focus on long-term value of our estate, and so when we see short-term softness in these markets, we very deliberately pull that lever to defer some of that harvest. And certainly some of that is with the expectation that, as the softwood lumber agreement reaches some form of resolution, that we are going to see that flow back through to higher stumpage prices. We don't know how long that will take, but we have confidence that it's going to move in that direction. And so we felt it was important to be able to pull that lever, demonstrate that ability to add value to the estate. And we were fortunate in that we also had very strong results from our New Zealand Timber segment as well as Real Estate to sort of backstop that deferral.

Mark Wilde - *BMO Capital Markets - Analyst*

And any thoughts on 2017, Dave?

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

We are not providing guidance on 2017 yet. We would typically do that with the Q4 earnings release.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. Dave, just finally on this sort of whole harvest issue, had it not been for the strength that you were seeing New Zealand in these real estates, would you have pulled as aggressively as you did here?

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

I think we still would have. It's we saw symbols that caused us to do that. And as I said, we felt like we were fortunate in that we had some other things that helped us, but I think that you have to be willing to sacrifice short-term results sometimes if you've got a nice long-term payback associated with it.

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

Look, the flexibility to manage harvest and defer harvest, it's certainly not limitless. Again, you've got crews operating. You've got volume commitments to mills. And so, again, it's not going to be -- you can never be kind of completely out of the market when you don't like the price. But here again we saw an opportunity to pull back, and that was sort of the best decision from a long-term value standpoint. And certainly, that decision was made easier by the fact that we are getting really strong results in Real Estate and New Zealand Timber.



Dave Nunes - Rayonier Inc. - President, CEO

And the other thing to bear in mind is that the volume reduction really has two elements to it. One is an element that Mother Nature sort of forced us into, and the other was more of an action that we took. So in the southwest where we had heavy rains and wet ground conditions, we were not able to get harvest crews into those geographies. So, the reductions of harvest in that area really were not -- that was not a choice that we could make.

The choice to defer the harvest was really more in some of these Eastern markets. And so collectively, as we look across the US South, we deferred roughly 400,000 tons spread pretty evenly across our various geographies, but recognize they were for different reasons.

Mark Wilde - BMO Capital Markets - Analyst

Yes, okay. Another question that I think people might have just going through the release, it seems like you sold young timberland and you bought some much more mature timberland, and there really wasn't much of a per-acre differential. Maybe you can just kind of help us understand the other puts and takes that would have been involved there.

Mark McHugh - Rayonier Inc. - SVP, CFO

Look, I think I'm reluctant to ever say that we are not buying at market, but obviously we try to do well on both the buy side and the sell side. And when we are selling properties, we typically have a whole value in mind that we are trying to exceed.

But look, we like the markets that we bought into. The timberland that we sold was certainly good quality timberland from a productivity standpoint. It was a little bit younger and South Alabama is a market that also we've seen some challenges in.

So, on a net basis, I think we are happy with the arbitrage and the properties that we bought and sold. In a way, we think it's going to be value additive to the portfolio going forward. But it's hard to get into a lot of -- again, we always try to get people off of the notion that you can read too much into per-acre values. Again there's a lot of inputs that go into those per-acre values. But suffice it to say that we sort of like this net position on these new trades.

Dave Nunes - Rayonier Inc. - President, CEO

I think I would add some other color to that and recognize, as we said in our prepared remarks, the three acquisitions that we closed on in Texas had an average age of 15. The large this position that we announced and partially closed on as well as this larger sale of the Townsend Bombing Range, those had an average age of 11. So that doesn't sound like a big difference, but, in a proportion sense, it is a big difference. And when you look at it on the merchantable inventory, the merchantable inventory per gross acre, what we bought versus what we sold was a third higher. So we bought properties that had 34 tons per gross acre, we sold properties that had 25 tons per gross acre, and that translates to a harvest rate differential of 4.4 tons per acre versus 2.9. So, we are very happy with that trade.

And I think the other thing to keep in mind is when we are doing trades like this through a mature versus younger timber, there's two other things that come to mind. One is evening out H class distributions, and two is just providing additional optionality. And we feel that, as we head into this housing recovery period, however long it takes to get there, however long it lasts, we want to have the most options and the most levers to pull. And when you've got more merchantable timber in your tool chest, you've just got more of those options. So we are trading for some younger properties that really wouldn't be harvestable in that time frame for properties that we think will. So we are very happy with that trade. We think it sets us up very nicely kind of coming into this housing recovery.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. And the last question I had, these G&A reductions that you talked about, are there any more moves either kind of corporate-wise or kind of in terms of field staffing or anything that we are likely to see over the next year or two?

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

It's something that we always have to look at your organization. I think that we've done a number of things within our organization really with the premise of trying to do two things -- one, flatten the organizational structure. I think we had some structural things, both within some of our G&A groups as well as our timber operations where we had extra layers of management. And so this really completes an exercise that we started after the spin where we took that layer of management out on the timber side, now we are in effect taking a layer of management out within some staff groups. And we think that improves that flattening of the organization. We think it will ultimately help with communication within the organization. And one of the mantras that we are always pushing is to push decision-making down to the appropriate level within the organization, and we think that flatter organization will help do that. And so this change that we just announced really helps us kind of move into that direction.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay, great. Thanks very much, and I'll turn it over.

Operator

Collin Mings, Raymond James.

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

Good morning guys. I guess the first question is, Dave, clearly you've been focused on some capital recycling opportunities this year. Just if you can give us some color on how that pipeline looks going into 2017. I know you don't like to typically comment on specific transactions, but maybe do you have other large nonstrategic land sales planned? Are you actively pursuing any particular acquisitions out there right now?

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

We tend to not comment on active transactions, Collin, but what I will say is we have a view, we have a view internally, to never be satisfied with our portfolio. We always want to look to improve that portfolio, whether that's buying lands that are complementary, getting into new geographies like we did with the Menasha acquisition, and getting into some really strong markets in Oregon, or selling some younger properties like we did in Alabama and Mississippi and Washington states. So we are always looking for levers that we can pull on improving the overall portfolio.

And so part of the question is a function of the things that we see out in the market. And as we've discussed in prior calls, we have a limited amount of additional debt capacity, and we want to be very careful in how we use that debt capacity. And so part of our ability to grow and improve the portfolio is going to have to come from some element of self-funding through asset sales. And so we are really preparing to have a little bit of a warchest where we can go out and acquire properties.

As we look into the market, we are very picky about what we decide to pull the trigger on. We look at how those properties improve our existing portfolio, we look at micro market conditions, and we like to be in tensioned markets as much as we can. And we are really trying to set ourselves up for adding properties in good markets and in complementing our existing portfolio. Those are the primary drivers. And I think we are seeing a steady stream of potential acquisitions, both small and large, out there, and we look at everything, but we are pretty disciplined as to what we choose to pursue.



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

Okay, Dave, maybe -- that's helpful color. But I think maybe putting that question in a little different frame, thinking about it in terms of some of the other timber (inaudible) that's historically maybe provided an aggregate number or dollar volume potentially associated with nonstrategic sales, or anything like that, is that something you guys plan to do or should we continue to just view it as very opportunistic depending upon what the bid is for land you might want to sell and what opportunities you have to redeploy it?

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

I think, keep in mind, Collin, that when we rolled out our revised strategy, we said that we are not going to get into the exercise of selling timberland at timberland prices to simply fund our dividend or augment cash flow. And it's the reason why, when we rolled out this large disposition category under which the Mississippi-Alabama transaction that we talked about as well as the prior Washington State transaction, those are all excluded from our EBITDA. So when we pull those triggers, we are pulling those triggers strictly for capital allocation purposes. We are not pulling them for purposes of augmenting cash flow or funding the dividend.

And so there may have been some temptation in the past to spell out the quantity of nonstrategic sales when the Company was indeed selling lands to help fund the dividend, but because we are not really doing that going forward, we don't really feel the need to do that. And when we decide to have large sales like that, we are going to do it on a situation-by-situation basis as well as based on some of the things that we see from an opportunity standpoint.

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

I would just add to that that I think that you would expect -- the large dispositions are purely opportunistic, but we've also said in the past that we do think that there sort of is an ordinary pace of activity in the Real Estate segment. If you were just kind of looking at properties that we're able to sell at an HBU premium on an annual basis, we think that pace of activity, what we've said in the past is we think that's generally 1% to 1.5% of our fee land base in the South annually.

And again, you're going to see some volatility around that because you can't always time those sales with precision, but that's generally kind of the pace of activity in our Real Estate business that we expect to see. And the large dispositions will be opportunistic.

Within that nonstrategic number, though, within our Real Estate business, that's going to be relatively small. I don't think you're going to see a lot of dollars flowing through that category. When you do, they are generally going to be categorized as large dispositions for us.

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

Okay, fair enough. Switching gears to just the US South, and just maybe expanding on some of the commentary earlier, can you talk a little bit more about the specific factors you think that contributed to the softer conditions in kind of Eastern markets in the US South in the third quarter, and to what extent that has continued into the fourth quarter?

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

I'll take that one. As you're probably aware, we've been experiencing almost drought like conditions across Alabama, Georgia and Florida over the summer. And such conditions allow landowners who don't put near as much investment in the road systems, things like that, to bring additional wood to market, also areas they might have that could be in small (inaudible) like that, that would become available. So we've seen an influx of wood, particularly from the private landowner coming to market.

And in addition, as often is the case when we get kind of these droughty conditions, they become favorable for southern pine beetle, and so we've seen some southern pine beetle outbreaks, some on our property, but more just across the South, that have put more salvage wood also in the market. And that wood, in order to stop a southern pine beetle outbreak, you have to harvest and get in front of the beetles basically. So it's very time sensitive. And so folks are very motivated and often reduce prices basically to get that wood salvaged so they don't lose additional crop. So we've seen that also impact.

And then the third factor that we are kind of seeing a little bit from Hermine and now coming from with Matthew is there is more salvage volumes from the hurricanes in the market. So there's just been quite a bit of volume that's come to the markets along the eastern coast in particular over the last three months.

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

That's very helpful color. Maybe just on that front, can you just -- any way to quantify maybe the out of land that maybe you had an impact from as it relates to the southern beetle?

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

The southern pine beetle, we were somewhere -- I don't have the exact number but it was around 500 acres is how much we had that was impacted by the southern pine beetle.

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

Okay. Just two other quick ones from me, just one thing on the real estate front. There have been some news articles out of Savannah area, just in specifically Bryan County, Georgia, indicating that Rayonier might be looking at donating some land for a new elementary school as well as potentially a new high school. We've discussed obviously the Wildlight project a lot on the last few calls. But maybe can you just update us on what you are seeing in the Bryan County market and potential plans there?

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

It's Chris. That's correct. This is -- Bryan County, which is the county just south of Savannah, it's one of our better HBU markets just in terms of the size of the population of that area, that market. And the velocity of growth down in Bryan County has been pretty strong with the county (inaudible) sort of filling up and Bryan County having more available land and very, very good schools. So, this is an area that we've been studying. It's the same county and same market where the Belfast Commerce Park is located where we've had some significant sales over the last two years.

In terms of the article you saw, we have deployed this strategy successfully over the years where we cooperate with a school district to locate and provide land for schools because, as you know, these schools are very good catalysts for development, particularly elementary and middle schools, catalysts for residential development.

So, in Bryan County, we donated some land some years back for a middle school. We have a wonderful middle school now in operation in the center of a lot of landholdings that we have there. And now we are contemplating a process with the County to also locate land for a high school and an elementary school in the coming years too. So recognize these are always a process. We work together to find the right location and the thing that makes the most sense. At the end of the day, we expect the district will pay for the improvements for the facilities and operate those schools. And our aim is to get the benefit from having those things catalyzed, the land around it.



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

Okay, very helpful detail. And my last question, we've talked obviously a lot about the outlook for sawlog pricing over, again, the course of the last few conference calls. But just maybe touch on your expectations for pulpwood pricing, not necessarily for the quarter or the next two quarters, but over the next couple of years just as you think about the end-use demand and kind of balancing that against what could ultimately be a little bit more residuals coming from some of the sawmills in the US South.

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

What I would say about that is I mean look. We've obviously seen a more measured recovery in US housing than most would have anticipated. I'm always saying to Dave, we've been two years away from 1.5 million housing starts for about seven years now. So, that recovery continues to get pushed out.

If you look at the starts per capita, even today, we are below levels seen in the last four or five housing troughs. And so we think we're going to get back to a level of housing starts that's more in line with those historical averages. And I think most market prognosticators think that that level is 1.5 million, and we think obviously we would have much healthier timber markets at that level.

But what we have seen and what we continue to see is incremental housing starts year-over-year. And we've seen incremental saw timber price growth year-over-year. That seemed to have kind of stalled in the last 12 to 18 months. And we believe that the softwood lumber agreement expiration has had an impact on that. If you look at the volume of wood flowing in -- or lumber flowing in from Canada, and then how that's increased in the last couple of years, really a lot of that incremental demand has been absorbed by incremental Canadian supply. And that's I think had an impact on markets locally. And so that's -- we think we are going to continue to see a trajectory in sawtimber prices, and we think it will probably kind of start back up in earnest when we have some resolution around the lumber agreement.

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

And then you also recognize that there's going to be interplay between the sawlog demand as well to pulpwood. And this is why we look at kind of the micro market conditions and the interplay between those. You've certainly got different demand drivers, but really this is really one of the reasons why we focus on the growth drain ratios for both pulpwood and saw logs in each of the basins that we operate in and recognize that no two basins are the same, and it's kind of a fluid equation going back and forth between those two sources of demand.

Operator

(Operator Instructions). Daniel Rohr, Morningstar.

Daniel Rohr - *Morningstar - Analyst*

Thanks again and, as always, appreciate the great segment level details you guys include in the release. On the upward revision to the EBITDA, I was hoping you could offer a bit more color there as far as how much was attributable to Real Estate versus New Zealand, and how much of the uplift from those segments may have been offset by the diminished harvest expectations domestically.

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

We tend to not provide additional segment guidance each quarter. That said, we did provide updated guidance on harvest volumes, and we expect pricing to be relatively flat, and so that should kind of assist with the modeling of those numbers. But you know, clearly, relative to the original guidance that we gave back in -- when we announced Q4 earnings earlier this year, Q4 2015 earnings earlier this year, the US South is below, Pacific



Northwest is below the range that is reflected there. New Zealand is well above and Real Estate is above as well. So, directionally, that would give you some sense but, clearly, the strength of New Zealand and Real Estate is really what's driving that increase in the guidance.

Dave Nunes - Rayonier Inc. - President, CEO

And recognize that the large sale that we talked about in Georgia is a larger contribution to EBITDA than the change in the guidance, and so the difference really represents some of the deferrals that we had from a timber volume standpoint.

Daniel Rohr - Morningstar - Analyst

Got it, got it. And then any additional detail that you can offer as far as the sawtimbers as pulpwood breakdown in the updated regional harvest guidance, and I guess a reminder on how we might expect that mix to evolve in years to come as hopefully we see additional momentum in housing?

Mark McHugh - Rayonier Inc. - SVP, CFO

I think you're going to see those ratios remain relatively consistent through the balance of the year. We have said in our public disclosure that we do, based on the thinning program that we implemented back in 2007/2008, we do expect that mix to shift more towards a 50-50 mix of pulpwood and saw timber over the next five years. And that will be gradual.

Dave Nunes - Rayonier Inc. - President, CEO

I think, year-to-date, we are probably around a 69-31 split roughly. And as we've said, we've been sort of gradually increasing that sawlog over time and expect to do more of it.

Daniel Rohr - Morningstar - Analyst

Got it. Thank you much.

Operator

Paul Quinn, RBC.

Paul Quinn - RBC Capital Markets - Analyst

Just a question on timber valuations, and I know you don't like to refer to dollars per acre, but we don't really have too many other metrics out there. When I look back in my timberland database, I am not seeing a lot of Texas transactions over \$2,000 an acre. So what is special about the property that you acquired?

Dave Nunes - Rayonier Inc. - President, CEO

Certainly, some of it is a function of the age of the timber and the stocking level. And so recognize that timber is typically valued on a DCF basis. And so the more near-term that cash flow is generally, the higher the value of the timber property, irrespective of the geography. So I think that's probably the main difference. Recognize that stocking translates to a much higher harvest rate in those three acquisitions of 4.4 tons per acre per year versus 2.9 million on the lands that we sold. And so that really represents the biggest driver.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. And I guess the other driver from a historical sense is the declining discount rate. What are you using in your DCF modeling?

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

We don't like to disclose sort of exactly what we are using, and we vary that situationally. I would say that, generally, we are seeing a real discount rate range in the market of 5% to 6% real.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. That's helpful. And then just over on softwood lumber, because it looks like you guys see some potential upside for yourselves as timberland owners, where do you see the negotiation sitting right now? And you know, I asked the same question to a competitor, but what's better for Rayonier? A quota deal or a CVD AD duty combination?

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

We are -- I think the folks that have lumber manufacturing capacity are certainly a lot closer to the negotiations. And so we are really going to participate in that in a second order effect as we see rising lumber prices, either through duty or quota or some combination thereof. And that's ultimately going to translate into higher stumpage values. And that's really the history of it. Just the question remains how quickly these things come to be.

But I think we are less focused on what month or what quarter we expect to see a change, and we are really looking at it in much broader time frames. We look at it across the next five years, we expect to see some material changes.

When you look at some of the macro factors and assume a higher level of housing starts and therefore lumber demand, that's got to come from somewhere. And the US South really as a region has the largest capacity for responding to that. And it's differential across the South, but, as a broad region, we see more response.

And then within the South, we think it's important to pay attention to, as we've laid out in our investor debt, looking at the differential inventory build region by region across the South. We believe that, for those regions that are more tensioned, they're going to see price elasticity behavior that's very different from the regions that have built up a lot of inventory. Two examples that we discuss when you look from sort of the high to the low across the South is, at the high end, you've got the region in Northeast Florida where we are located that had a net decline in inventory from the peak of the last housing starts. And in other geographies further west, you've got an inventory build that exceeds one-third. So, you're going to see different pricing behavior as we see the evolution of the softwood lumber agreement and the recovery in housing prices or housing starts materialize.

Paul Quinn - *RBC Capital Markets - Analyst*

Great. Thanks for the help. Best of luck guys.

Operator

At this point, we have no questions on queue. (Operator Instructions). Speakers, at this point, we have no questions on queue. You may proceed.



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

Great. This is Mark McHugh. I'd like to thank everybody for joining us. Feel free to contact me with any follow-up questions.

Operator

And that concludes today's conference. Thank you for participating. You may now disconnect. Have a great day.

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