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RYN - Q3 2015 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 3Q15 sales of $152m and net income of $20m or $0.16 per share.

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PRESENTATION

Operator

Welcome and thank you for joining Rayonier's third-quarter 2015 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 meaning over to Mr. Mark McHugh, Senior Vice President and CFO. Sir, you may begin.

Mark McHugh - *Rayonier Inc. - SVP and 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.

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

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

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

We were pleased with our quarterly results especially given the challenging market conditions we faced. Our Southern Timber segment had another solid quarter. We realized favorable pricing on sawtimber harvested under stumpage contracts executed earlier in the year when prices were stronger due to wet weather although pulpwood prices decreased due to geographic mix and drier conditions.

In both the Pacific Northwest and New Zealand Timber segments, prices continued to be impacted by weak demand from China. Our strong real estate results reflect higher sales volumes of non-strategic and timberland properties at strong prices coupled with a steady demand for rural properties. And we continued to make good progress in executing our strategy to enhance the value and marketability of selected development properties.

With these results we are on track to achieve our previously disclosed full-year adjusted EBITDA guidance.

On the strength of our anticipated real estate results for the year coupled with challenging market conditions in the Pacific Northwest, we made the decision to accelerate the step down of our harvest reduction in the Pacific Northwest. We are going to defer harvest on 200,000 tons or 14% of the planned annual harvest thereby preserving value and enhancing our future flexibility.

We also made good progress against our $100 million share repurchase authorization with the buyback of $65 million of shares in the third quarter at an average price of $23.65 per share. Since this repurchase authorization began in the second quarter, we have repurchased 2.5% of our total shares outstanding for $75.9 million equating to an average price of $23.95 per share.

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

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

Thanks, Dave. Let's start on page 5 with our financial highlights. Sales for the quarter totaled $152 million while operating income was $28 million and net income was $20 million or $0.16 per share. On a pro forma basis, net income was $22 million or $0.17 per share.

For comparison purposes our income from continuing operations excludes the income of the discontinued performance fibers business which was spun off in June of last year. Our pro forma results also exclude several items which are shown and reconciled to the nearest GAAP metrics on pages 17 and 18 of the financial supplement. The pro forma adjustments for the third quarter include $1.5 million of costs related to our shareholder litigation and a $0.4 million write-off of capitalized financing costs related to closing our new credit facilities.

Adjusted EBITDA of $66 million for the quarter was well above the prior quarter primarily due to stronger real estate results and modestly below the prior year quarter as stronger real estate results were more than offset by lower results in our 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 $98 million compared to $87 million in the prior year which included tax payments and CapEx related to performance fibers business and cash interest paid on a higher level of pre-spend debt.

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 $66 million of cash and $791 million of debt. Our net debt of $725 million represented roughly 21% of our enterprise value based on our closing stock price at quarter end. As we previously disclosed during the third-quarter we closed on new credit facilities totaling $550 million which are comprised of a five-year $200 million revolving credit facility and a nine-year $350 million terms loan. We utilized a portion of the new facilities to repay $131 million of senior exchangeable notes that were due in August and to repay amounts outstanding on our existing revolver.

As previously announced we plan to use the balance of the term loan proceeds to fund a capital contribution into our New Zealand joint venture subject to regulatory approval for the repayment of NZD242 million of New Zealand dollar denominated debt and related costs. This transaction will simplify our capital structure, lower our consolidated annual interest expense by approximately $5 million, and increase our interest in this joint venture from 65% to approximately 77%.

Further, we believe that the timing of this refinancing is opportune given the favorable US dollar/New Zealand dollar exchange rate which is currently near five-year lows. To this end, we entered into a currency hedge to mitigate the exchange rate risk associated with this refinancing which effectively collars the exchange rate on the transaction to between $0.62 and $0.67 US dollars per New Zealand dollar which would translate into total refinancing costs of between $150 million and $162 million depending on the exchange rate when the transaction ultimately closes.

Based on our current expectations with respect to the New Zealand regulatory review, we now anticipate closing this transaction in the first quarter of 2016.

We were very pleased with the terms that we were able to achieve in our new credit facilities. Our term loan facility was syndicated through the Farm Credit system and is eligible for patronage payments. We also entered into an interest rate swap to fix the cost of this facility. With the interest rate swap and the estimated patronage payments, we expect the all-in cost of the term loan to be approximately 3.3% while our revolver is price at LIBOR plus 1.25% based on our current credit metrics.

With these new facilities and our relatively low debt as a percentage of enterprise value, we continue to have adequate debt capacity to fund timberland acquisitions and other capital allocation priorities including share repurchases.

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

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

Thanks, Mark. Good morning. Let's start with page 10 and the Southern Timber segment. We have continued our momentum from the second quarter and increased volume versus last quarter by 100,000 tons to 1.4 million tons which is comparable to the volume harvested in the same period last year. EBITDA in Q3 of $24.9 million is $0.5 million favorable to Q2 driven mainly by the increased volume partially offset by lower pulpwood prices due to a shift in geographic mix.

Third-quarter EBITDA is $2.6 million unfavorable to the same period in the prior year primarily due to a decrease in average pulpwood prices and lower non-timber income as the 2014 period included closings on two pipeline easements.

Pulpwood prices of $16.39 per ton in Q3 were 14% below Q2 and 9% below Q3 2014. The primary driver of the price decline was geographic mix in the quarter, specifically a [140,000] ton lump sum timber sale sold to a pulp customer combined with increased spending activity in our lowest-priced pulpwood region.(company corrected after the call) In addition, a drier summer across much of our operating area improved ground conditions so we've seen a slight dip in pulp prices in our deliverd program due to increased supply.

Excluding the impact of geographic mix, pulpwood prices were roughly flat to the prior year quarter and down slightly versus Q2.

Q3 grade prices of $27.27 per ton were comparable to Q2 and favorable by 6% to Q3 2014. In 2015, we executed most of our pay-as-cut stumpage contracts during the winter when wet ground conditions restricted supply resulting in higher timber prices. We recognize revenue under pay-a-cut stumpage contracts as the timber is harvested and much of that volume continued to be harvested in Q3 under these contracts which typically have terms of 12 months.

Our strong third quarter should enable us to reach our goal of harvesting 5.4 million tons of pine and hardwood in our Southern Timber segment for the full year.

Now moving to the Pacific Northwest Timber segment on page 11. In the third quarter, we generated adjusted EBITDA of $7.3 million versus $4.6 million in the prior quarter and $10.4 million in the prior year period. Volumes increased overthe prior quarter primarily due to a lump sum sale of timber from our recent acquisition in Oregon that came in favorable to our acquisition underwriting assumptions. Compared to the prior year period, volumes were essentially unchanged.

In Q3, delivered sawtimber prices of $74.33 per ton were 3% unfavorable to Q2 and 11% unfavorable to Q3 2014. Reduced export demand along with the closure of two domestic sawmills in Shelton and Tacoma combined to lower sawtimber prices in Q3. However, strong demand for pulpwood from mills close to our ownership and reduced sawmill residuals have helped increase Q3 pulpwood prices by 6% compared to Q2 and by 21% compared to Q3 2014.

We believe the export market bottomed toward the end of Q3 and we are now seeing improvements in export markets in both Japan and China. An increased proportion of our Douglas fir logs are flowing to Japan at strong prices. Log inventories in China have fallen to approximately 2.6 million cubic meters, the lowest level in two years. This has facilitated increased shipments and improved prices in the fourth quarter.

Domestic prices have continued to be soft based on the closure of two local sawmills and the fact that most mills have high log yard inventories. As we discussed earlier, based on marketing conditions, we are deferring 200,000 tons of Washington harvest volume, or 14% of our planned annual harvest.

Now Dave will review New Zealand Timber results. Dave?

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

Thanks, Doug. Page 12 shows results in key operating metrics for our joint venture in New Zealand. The third quarter was a challenging quarter for our New Zealand JV with adjusted EBITDA of $6.1 million, decreasing from $11.2 million in the prior year quarter. Volume of 721,000 tons in the quarter was 8% higher than the prior year quarter. However, 89,000 tons of stumpage volume in the quarter was from a 2014 stumpage contract that was converted into a lump sum sale in Q3. Excluding this volume, total volume in the quarter would have been down 6%.

Export prices declined 21% and domestic prices decreased 23% compared with the prior year quarter due to weaker demand from China and the impact of a stronger US dollar versus the New Zealand dollar.

Prices decreased from last quarter also with export prices decreasing 4% and domestic prices 10% in US dollar terms. However, it is important to note that the decline in export prices was largely driven by changes in the US/New Zealand dollar exchange rate which was coupled with a decline in US costs as well. In addition, the decline in export prices was partially offset by declines in export freight as well as declines in US dollar costs due to exchange rate fluctuations. Thus the bottom line impact for the segment did not reflect the full brunt of the headline delivered log price declines.

In the fourth quarter, we are seeing a significant improvement in export demand and pricing from China as inventory for radiata pine now represents 1.6 months of supply, the lowest level since late 2014. We continue to expect that total 2015 volume will be roughly flat versus 2014.

Shifting to our trading segment, volumes were higher due to two new contracts but this was more than offset by a 21% decrease in prices compared with the prior year period due to weak demand from China and foreign-currency impacts.

I will now turn it over to Chris to discuss real estate.

Chris Corr - *Rayonier Inc. - SVP, Real Estate*

Thanks, Dave. Let's turn to page 14. We enjoyed a strong third quarter completing $35 million in sales that included significant rural and non-strategic timberland transactions making this our biggest quarter year to date.

Additionally, we made significant progress on our development projects including the East Nassau mixed-use village in Florida as we prepare to break ground this quarter. In the rural category, one transaction totaling approximately 2600 acres with a buyer in Texas drove our best sales quarter year-to-date. Activity in most rural markets remains steady.

In the nonstrategic and timberland category, total sales of 10,681 acres were almost all from three transactions to conservation interests in Florida and Alabama, all at attractive pricing.

Now let me shift to provide a brief update on the East Nassau mixed-use project. As a reminder, East Nassau is a proposed mixed-use community located north of Jacksonville near the interchange of Interstate 95 and Florida State Road A1A at the gateway to Amelia Island and only 13 miles from the Jacksonville International Airport. In September we received the final major regulatory permit required for development.

With its approval, we now have secured all the local land-use entitlements as well as state and federal environmental permits authorizing the project to proceed. Later this month we plan to break ground on infrastructure development of an 85-acre sub-phase known as the Village Center to include primary roads and utilities to create parcels for multifamily apartments, retail, dining and office uses as well as lots for single-family homes.

We are pleased by the interest we are receiving from developers and homebuilders. Construction on the site for the K-5 elementary school, a key catalyst for the project, is on track with building construction scheduled to begin next spring and opening planned for the fall of 2017.

We are pleased by the early results we are seeing from the refresh strategy we announced late last year to pursue value creation activities on select properties to enhance long-term value and to deemphasize the sale of core timberlands. We believe that the favorable key performance indicators year-to-date as compared to last year including average price per acre and the pace of overall sales volume along with the momentum we are seeing with our development projects are all indicative of progress in the right direction.

I will now turn the call back over to Mark.

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

Thanks, Chris. We previously disclosed full-year adjusted EBITDA guidance of $190 million to $215 million. Based on our year-to-date results and our outlook for the balance of the year, we expect to be comfortably within this range even after factoring in our planned harvest reductions in the Pacific Northwest. For the full year we now expect harvest volumes to be approximately 5.4 million tons in the South, 1.2 million tons in the Pacific Northwest and 2.4 million tons in New Zealand.

As Dave noted earlier, our revised Pacific Northwest volume guidance reflects our decision to accelerate the step down of our harvest in this region due to soft market conditions. This action will allow us to preserve value on the stump and will enhance the flexibility of our Pacific Northwest operations going forward.

We expect pricing in the South to be relatively flat for both sawtimber and pulpwood for the balance of the year. In the Pacific Northwest, domestic market conditions will likely constrain sawtimber pricing in Q4. However, we started to see some signs of improvement in the export markets. This improvement has been particularly pronounced in our New Zealand segment where we have seen export prices rebound by 25% since September lows.

In our real estate segment, we expect Q4 sales of between $15 million and $20 million based on our current pipeline of transactions.

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

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

Thanks, Mark. Overall we were pleased with our results for the quarter particularly given the challenges that our sector faced. As we look forward through the remainder of 2015, we expect continued solid pulpwood demand in our core markets and improving sawtimber prices over the next few years but limited upside in the near term as end market lumber prices while recovering from recent lows continue to be constrained.

We also anticipate that near-term conditions in the China log export markets to strengthen from recent lows. Long-term, we are confident that China will remain an important source of additional demand for our logs from New Zealand and the Pacific Northwest.

In our real estate business, we are encouraged by the interest we are seeing in select development projects which supports our strategy to unlock value in our coastal corridor properties. We are continuing to make good progress within both our Belfast Commerce Centre and East Nassau projects and are confident they will contribute to long-term shareholder value.

Regarding timberland acquisitions, we did not close any timberland acquisitions in the third quarter although we evaluated a number of opportunities. Our acquisitions so far this year reflect our disciplined growth strategy that focuses on select acquisitions that upgrade our land portfolio, grow our sustainable harvest and contribute to growth in cash flows.

Year to date we have closed on eight transactions totaling 35,000 acres for approximately $88 million. We continue to see an active timberland market and will follow a disciplined process to evaluate acquisition opportunities.

Finally, we continue to be keenly focused on capital allocation and creating long-term value for our shareholders. To that end, we are pleased to have completed three quarters of our $100 million repurchase authorization at prices we believe are well below our intrinsic value. We've previously said that our capital allocation strategy will be dynamic and we will take into account a variety of factors.

Clearly in this past quarter we felt that the best use of our capital was to invest in Rayonier shares. We will continue to actively evaluate all capital allocation alternatives including acquisitions and buybacks with a focused view toward building long-term value for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Collin Mings, Raymond James & Associates.

Collin Mings - *Raymond James & Associates - Analyst*

Good morning, guys. I guess just really the first question, can you just talk a little bit more about what gives you confidence that the turn that you are starting to see in the export market is sustainable? And just given that you are seeing that improvement, why does it still makes sense to accelerate that step down and harvest activity in the Northwest?

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

Well, I think there's a few pieces to that question, Collin. I think the first is that I would say we are seeing differential improvement in the export market between New Zealand and the US and a lot of that has to do with how the wood is used in China in particular. If you go back a number of months prior to price reductions, you saw radiata getting roughly used -- roughly 30% of the radiata was going into the plywood market. As we've seen radiata prices fall, radiata has displaced domestic poplar for the core portion of plywood and as such we are now seeing radiata 60% of the radiata volume flowing into the plywood markets. And that's been a big part of why we've seen radiata prices move so rapidly in the last couple of months from the lows in September. And so that's not something that is being experienced the same way in the Pacific Northwest where you've got wood that's going into primarily a heavier component of concrete forms in China.

And then when you couple that with the decline in domestic demand due to the closure of the two saw mills that Doug mentioned earlier, we just felt like it was the right decision to step that volume down and not try to push volume into the market and we feel like that's the right long-term value play for this asset. You will recall when we made our announcements last November, we talked about the need to bring that harvest volume down to a 1 million ton a year level and frankly the faster we can get it down there the better off our shareholders are longer-term.

And so really we put all of those things into the mix when making that decision.

Collin Mings - *Raymond James & Associates - Analyst*

Okay, no, that's very helpful color, Dave. I guess just switching quickly to the US South, maybe just touch on the recent production curtailments that have been announced in the region and obviously Interfor out there in particular with a big announcement, just how has that impacted your business? It doesn't sound like you are very optimistic as far as any sort of meaningful lift in sawlog pricing in the South in the near term but maybe touch on what those production curtailments have meant for you?

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

I will take that. You are right. We have seen some curtailments and it's been varied depending on their local areas. To date we haven't had a major impact yet due to the heavy pulpwood percentage we've had in our markets due to the poorer chip and saw markets in particular throughout the year that we have seen. Most of the wood that we do have is committed on delivered program and we have a quota for that so we expect Q4 to be very similar to our Q3 basically. But limited upside as you say in pricing right now given where things are at.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. And then I guess Dave and Mark, just as far as the legal front. If I remember correctly from the 10-Q that you filed for the last quarter, there was some sort of hearing on August 25 related to some of the pending shareholder litigation. Recognizing you are somewhat limited on what you can say at this point, can you just maybe update us on what came out of that hearing and the status on the legal front?

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

Sure. Would be happy to do that, Collin. After oral arguments were heard on the defendants' motion to dismiss the consolidated class action complaint on August 25, at that time the court granted our motion without prejudice but did allow the plaintiffs 30 days to file an amended complaint which would cure the deficiencies the court identified in the complaint during the hearing.

The plaintiffs have made a timely filing of an appended consolidated class action complaint on September 25 and then we the defendants timely filed a motion to dismiss the amended complaint on October 26, which motions are pending.

So essentially this process is going to continue through the balance of the year as that motion goes back and forth. As it relates to both the SEC and the derivative suit, we really don't have updates to report at this time.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. That's again very helpful color. And then just one last question for me and then I will turn it over. Just curious how Dave you and the Board are really thinking about the runway for additional share repurchases. Clearly very aggressive during the third quarter, stock trades at a meaningful discount I know to my NAV. But just thinking about the runway going forward just given how aggressive you've been and would you consider doing kind of a JV transaction like Plum Creek did to generate some more cash to repurchase shares at these levels?

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

I will take a stab at that and then I will let Mark chime in. I think that we saw an opportunity in the third quarter to move pretty aggressively on our buyback authorization from Q2 based on where pricing was. I think having said that though, we are certainly mindful at a Board level of the impact that has on our debt capacity when you fund it with debt. So it is something that does have limits. But I would say as I said in the prepared remarks, we were certainly happy with the decision to buy when we did. And I will let Mark kind of add to that.

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

Yes, as Dave noted, our capital allocation priorities are dynamic and they are going to be based on the opportunities that we see in the market at that point in time. Clearly last quarter with where the stock was at we felt the best opportunity available to us was to repurchase our own shares. That said, earlier in the year we made several acquisitions that we felt were very attractive and would add value to our portfolio over time.

And we've been very pleased with how those assets have performed so far relative to our underwriting assumptions. We also declined to pursue some larger transactions in the market this year because we felt they were not a good fit with our portfolio and our strategy. So again, we are going to continue to be opportunistic and nimble with respect to capital allocation and we are going to continue to deploy capital in a way that we believe will deliver the best long-term returns as well as value for our shareholders.

And I guess just to touch on the question about the Plum Creek joint venture, clearly part of the strategy or part of their strategy with respect to that transaction was to crystallize mark-to-market valuation in the US South for their assets. And it appears to have been pretty effective in that regard kind of given that the stock was a pretty significantly following news of that deal. So from a capital allocation standpoint, we think there was certainly some merit to the transaction.

That said, it also has the potential to raise some conflicts of interest going forward both operationally and with respect to allocation of future growth opportunities. And so I think we would have to carefully weigh the pros and cons of any such strategy before trying to replicate it. That said, in certain respects it's not all that different than the joint venture that we currently have in New Zealand.

So I think for us if the objectives and scope were defined in a way that made the conflicts manageable, we would certainly consider it but we would also be very judicious in that evaluation. But as it relates to the sale of land to fund future capital redeployment, again I think that is something we would be open to depending on the circumstances.

Collin Mings - *Raymond James & Associates - Analyst*

All right. Thanks, guys. I will turn it over.

Operator

Mark Wilde, BMO Capital Markets.

Mark Wilde - *BMO Capital Markets - Analyst*

Dave, I wondered if you could just give us any preliminary thoughts on the goal of cash flowing to dividend in 2016?

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

Well, I think, Mark, that with the headwinds that we are facing right now in a broad sense I think we still have a bit of that gap to close and I think that we have continued to take a look at that and chipped away at that on a few different fronts.

Mark touched on in the prepared remarks the impact that our New Zealand refinancing will have which will contribute roughly $5 million in a consolidated cash flow sense towards that. We also feel very positive about the progress that our recent acquisitions have made. We've really focused acquisitions that have had strong cash on cash yields during the first decade of ownership and I think those have all had a meaningful contribution.

And I think certainly the progress that Chris talked about on the real estate side has helped us chip away at that but I also would be remiss if I didn't say that the current market conditions on the timber side, we still have some room to go in terms of fully covering that gap.

Mark Wilde - *BMO Capital Markets - Analyst*

Yes. And Dave just on that because there seems like there is a lot of puts and takes as you go through your portfolio. But how are you thinking about the role of real estate sales and meeting that goal when we go forward because when you came in you talked about really wanting to throttle back land sales as a key element in your cash flow?

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

Well, I think it's important, Mark, to recognize what we talked about was throttling back the sale of core timberlands to augment cash flow and fund the dividend. And when we are out talking to folks we could fund the dividend tomorrow with the sale of core timberlands and that's just a decision that we have chosen not to make. The sales that we are pursuing in the real estate segment have really been in areas where we feel can add value relative to -- or we can sell those for values that represent premiums to our hold value. So I think we are absolutely being true to the word that we had last fall in terms of really deemphasizing the sale of core timberlands and I think you see that in some of the pricing that we've achieved if you look at that over the past few quarters.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. And then I guess as you think about acquisitions kind of going forward, from the outside it's kind of hard to see how any acquisition can -- because when Southern timberland seems to be being valued at about 2.5% to 3% on an EBITDA basis, hard to see how any of those acquisitions can look better than your own stock yielding above 4%.

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

Well I think this really speaks to why we've had a fairly limited number of acquisitions that we've gone after this year. We closed on eight acquisitions. They've generally been on the smaller side and I think the fact that in Q3 all of our capital really was allocated to share repurchases speaks to that yield dynamic that you just referenced.

But there are occasional acquisition opportunities that do present higher yields and I think that we have seen as well on the properties that we purchased that we don't mind paying up for properties that are highly productive and I think that's another element of the higher yield properties is they tend to be on higher-quality properties. So we look at it as having bought stronger factories, if you will.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay, all right. The last question I have, Dave, is just on what's going on in terms of the M&A market right now. You've had two big deals out there in the market Foley and CalPERS, both of which I think have a little bit of hair on them. But what is your sense of those deals and then what seems to be in the pipeline beyond them?

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

Well, I would say there's a fair bit of transactions that are out there in the pipeline. Foley is still working its way through and we understand that there was a sale out of -- in the works out of a portion of the CalPERS properties in Louisiana. And really until we learn more about the values on those it's hard to comment from a qualitative standpoint.

But I think from our standpoint we are again looking at properties that are complementary to our assets, improve the quality of our assets and improve the cash flow generation and that's really what we are focused on when we are looking at acquisitions.

I also would say that there are quite a number of acquisitions that were made a decade ago by a number of TIMOS that are starting to new the end of their 10-year term and so we anticipate that we going to continue to see properties put out on the market and for those that have a good fit with what we are looking for, we will take a hard look at them.

Mark Wilde - *BMO Capital Markets - Analyst*

Yes. Could you just comment briefly on the New Zealand market because I am hearing that particularly Chinese players very interested in New Zealand timber assets.

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

Yes, that has been a phenomenon that's really been present for the last few decades. You don't see a lot of direct investment in timberlands here in the US but you certainly have seen it in New Zealand going all the way back into the 1990s. And so that's not at all an unfamiliar territory.

New Zealand tends to have less deal flow but I think when there are deals in New Zealand you will definitely see more parties that are funded out of China than you would elsewhere and I think we are in a period right now where there are a few things on the market down there that fit into that category.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay, great. I will turn it over Thanks, Dave. Good luck in the coming quarter.

Operator

(Operator Instructions). George Staphos, Bank of America Merrill Lynch.

John Babcock - *BofA Merrill Lynch - Analyst*

Good morning, this is actually John Babcock in for George. I just wanted to quickly ask you guys with regards to real estate, it seemed like the price for the timberlands sold was [hopefully] a little bit up there and I just wanted to get a sense for weather there was any unusual mix in there?

Chris Corr - *Rayonier Inc. - SVP, Real Estate*

So there were three significant transactions in that category that together totaled almost 10,000 acres, two to conservation interests that were public interests, one in Alabama and one in Florida and then another private purchaser that came at very favorable pricing. So they all have their own stories to them. I think on the public side, those are -- one in Florida was to buffer a base, a military base, and so it had development pressure around it and the prices reflect that.

In the state of Alabama a similar dynamics, in terms of pressure from development on a forest. On the private side, this was a private interest that actually had some conversation and other interest to it in Florida in similar dynamics. We were proposing to put some rural products out on these properties that influence the price upward, and the buyer decided to acquire them all.

So these all have their own stories. They all are unique assets, but they all had these discrete stories that sort of pressured the price in the right direction.

John Babcock - *BofA Merrill Lynch - Analyst*

All right, thanks for that.

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

This is Mark. I think to some extent, this also goes back to some of Dave's comments around the value that we are receiving for our real estate sales. The key criteria that we are evaluating as it relates to land sales is, what is that premium to our hold value as timberland.

So some of these are unsolicited approaches. Some of them are conservation sales that are kind of characterized within this nonstrategic timberland category. But again, I think you should generally expect that when we are selling timberland, it's going to be at a premium to our timberland hold value.

John Babcock - *BofA Merrill Lynch - Analyst*

And have you ever given a sense as far as the spread that you'd like to get at that premium, or not?

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

I would say it's very situation specific. Again, there may be situations where we would just decide to sell timberland that we truly deemed nonstrategic, and redeploy that capital elsewhere. On those types of transactions, you might not be seeking a premium at all.

Where we get an unsolicited approach for properties that we are perfectly happy to hold as timberland value, then that premium needs to be meaningful.

John Babcock - *BofA Merrill Lynch - Analyst*

Okay. All right. Thanks. And then the next question I had was just with regards to Southern Timber and I wanted to get a sense as to whether or not have contracts set of higher prices that ultimately might roll off here, or if the prices ultimately should remain reasonably steady there?

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

As we discussed before, most of those contracts were put in place kind of the first quarter and are 12 months, so for Q4 we are looking at pricing being fairly similar to what we had in Q3. So we expect things to be fairly comparable to our Q3.

John Babcock - *BofA Merrill Lynch - Analyst*

All right. Thanks for your help. That's all I have for now.

Operator

Paul Quinn, RBC Capital Markets

Emily Davies - *RBC Capital Markets - Analyst*

Good morning, this is Emily Davies on for Paul. First question on China. I understand that inventories are extremely low right now but is there anything really that you expect to drive demand improvements? And then on that, have the competitive dynamics changed from Russia with the weak ruble?

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

I think you have a few things going on there. As we look at the demand in China, you've got sort of two components of that demand. You have the new construction demand which tends to generate a lot of wood products demand as it relates to concrete forms and then you've got finishing demand as it relates to the sale of completed apartment units where a fair bit of wood in the form of plywood goes into those apartments in a way similar to how we think of sheet rock in North America. And so you've got some different demand components that behave differently as that market has evolved and that's really gets back to my earlier comments on the strength that we are seeing out of the plywood sector for New Zealand.

Emily Davies - *RBC Capital Markets - Analyst*

Okay, great. And then anything on the competitive dynamics just with the weak Russian ruble?

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

Yes, I think as it relates to Russia, you've got a couple of things going on. We have not seen, despite the weakening ruble, we have not seen a material change in port inventories of Russian volume and so that really speaks to some of the infrastructure challenges. But I think we have seen probably more flow of Russian material coming across in lumber, various forms of finished lumber. We have seen continued strength there and that's probably where they play a bigger role is on the lumber side than we do in the port areas where we tend to compete from both New Zealand and the Pacific Northwest.

Emily Davies - *RBC Capital Markets - Analyst*

Okay, great. That's helpful. Thank you. And then following up on some earlier comments regarding the Southern sawmill curtailments, just wondering if you have an outlook for Southern Yellow Pine pricing? Do you think the recent rally is more short-term or do you expect it to continue into Q4 and 2016? And then at what point do you expect curtailed capacity to come back online and see Southern sawlog pricing benefit?

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

I think a lot of that question is really going to come down to the pace of the housing recovery and the mix of single-family houses within that and that's a hard thing to peg. I think that I would reiterate that we are really looking at the long-term trend and are focused more on that three- to five-year timeframe than we are the immediate next quarter or next year. And so we see that as a trend that's going to happen within that timeframe and we trying to get ready for that.

I will let Doug speak to more the things that he is seeing on the production curtailment side.

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

Yes, I think right now we are seeing -- there were some concerns about the softwood lumber agreements and how that might impact things, so I think we had some distributors sitting on the side and basically waiting to order inventory and once that expired and we didn't see a major flooding into the markets or anything like that, they stepped back in and started buying. We've seen a rally here in the last few weeks of the month with respect to lumber prices.

But as Dave mentioned, I think we really are going to need to see the housing starts recovery and for something to be really meaningful. So I'm not sure that we are going to continue to see this increasing but we think that we are definitely on something that feels like it's kind of where we are at and like I said before with our sales we think we will be comparable for Q4 to our Q3.

Emily Davies - *RBC Capital Markets - Analyst*

Okay, great. Thank you. And then lastly on the real estate, just wondering about -- you reiterated your plan to hold core timberlands for long-term value creation. Understand that you are going to continue to pursue this strategy. Slightly surprised that real estate drove the improvement this quarter just in that regard? Wondering what your real estate outlook for 2016 is? Do you expect fewer asset sales or what do you see on the horizon?

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

I will turn it over to Chris to address more specifics. But I don't think we are at the point of providing 2016 guidance on real estate. I think that what we said in the past, as Dave said, is that we didn't intend to sell core timberlands at core timberland prices solely to augment our recurring cash flow generation. We also said that we would continue to optimize our portfolio value and to vest properties where we could achieve an appropriate premium to our hold values timberland.

And I think this distinction is very important. We've had a great year so far in real estate but what's important to keep an eye on is the price point that we achieving on our real estate sales. Our average price per acre on real estate sales is up significantly from the last year and I believe we are leading the sector on this metric.

So we will continue to pursue real estate sales where we can achieve that premium to our hold value and we will also periodically evaluate the sale of core timberland properties if we think that there's an opportunity to redeploy that capital into higher return opportunities. But again, I don't think that we are at the point of giving 2016 guidance on real estate sales just yet.

Emily Davies - *RBC Capital Markets - Analyst*

Okay, great. Thanks. That's all I had.

Operator

(Operator Instructions). Daniel Rohr, Morningstar.

Daniel Rohr - *Morningstar - Analyst*

So in the south you mentioned that some of the sawtimber pricing strength was attributable to the execution of contracts struck a mid higher prices earlier in the year. But when I look at how realizations have been faring throughout the year, pretty much each quarter you are up mid-single digits in percentage terms from 2014 which is a fair bit better than what we are seeing at least in South-Wide prices report by Timber Mart South.

So any color you can offer there, any mix shift as far as where you are harvesting or what you are harvesting that might explain the consistently better price performance throughout the year?

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

Basically our teams try to evaluate at any point in time when they think they're going to hit the best markets and market into that, so we have a stumpage model that we sell about 75% of volume in the South. They are really working to find those opportune times when they can market that timber and strike basically. So we do typically try to invest basically in our infrastructure of our properties and provide that ability for people to be able to harvest when things are wet and so it's really as much about timing and execution by the field staff as it is anything else. And we haven't seen a major shift in where the sawtimber volume is being harvested by region. It's more just a matter of execution time although we do have some strong pricing in the regions we exist. So, Mark, anything you would like to add?

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

Yes, I would is add to that, one of the things that we've highlighted in our most recent investor presentation is I think if you look at the specific geographies in which a good portion of our timberlands are located we have in fact seen outsized price improvements in those markets for a variety of reasons. But largely driven by very healthy pulpwood demand, the advent of pellet manufacturing and so on. And so I do think that we have generally seen stronger than Timber Mart South, South-Wide average price improvements and again, we think that that will continue because again those markets from a growth drain ratio standpoint are very favorable and will continue to be very favorable.

Daniel Rohr - *Morningstar - Analyst*

Great. And hoping you can offer some long-term comments on how you see the Southern pulpwood supply and demand balance shaking out as we see stronger lumber production in the region and correspondingly lower residuals available for pulp and paper production or higher residuals? Excuse me.

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

Sure. I think right now as we've seen, you are correct that we have seen less residuals available at this minute but at the same point in time there's several biomass facilities that are being built and constructed that have been announced that we also see an increase in demand. So at this point in time we see that in a lot of cases we are looking at towards an equilibrium as the sawmill residuals will be coming back online, there's increased pellet capacity and biomass capacity coming an online in some of the same areas basically. So we are not predicting or seeing at this point in time any major changes that impact our markets right this minute.

Daniel Rohr - *Morningstar - Analyst*

Thank you.

Operator

Mark Wilde, BMO Capital Markets.

Mark Wilde - *BMO Capital Markets - Analyst*

(technical difficulty) very wet weather down in some parts of the Southeast over the last month or so. Is that going to have any effect in the fourth quarter? (technical difficulty)

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

As we said before, we basically think we are going to have very comparable pricing. We will have some areas where there might be some increases in prices but it's also been dry in some other areas too so overall we are looking at a Q4 comparable to our Q3.

Mark Wilde - *BMO Capital Markets - Analyst*

Is that having any effect on logger's ability to kind of keep in and harvest?

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

It can. That's correct. Depending on areas where we have had significant rainfall such as in Texas or places like that, it can slow it down. It's one of the reasons we have a lot of geography for assets basically and as we see a slowdown in one area we have the opportunity to increase in another area to take advantage basically when those situations arise.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. And then, Mark, just curious about forward visibility on real estate sales. Do you typically have two or three quarter visibility, or do some of these things show up on a relatively short-term basis or an unexpected basis?

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

I think that the pace of rural and recreational land sales tends to be relatively consistent. When you have a portfolio comprised of millions of acres, those types of opportunities are going to fall out.

What tends to be less predictable are some of the unsolicited sales. Again, of properties that we are perfectly happy to hold as timberland if somebody comes along and is willing to offer you a material premium to your Timberland hold value. Again we are going to take advantage of those opportunities because we think that is a value maximizing decision for our shareholders but they are less predictable. I would say that we tend to have very good disability one quarter forward just in terms of what's in the pipeline. I would say reasonably good disability in the six to nine month time horizon but that visibility drops off pretty significantly thereafter particularly as it relates to some of these unsolicited sales.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. And then a last question I had is just a little longer term one for Dave. And I wondered if you would just comment on this disparity that exists out there from a valuation perspective between public market and private market and how you think that disparity might move over time? Because it seems to me it's kind of ebbed and flowed a bit.

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

Yes, and I think you also have to recognize, Mark, that there have been times where that disparity has been influenced from a data standpoint that perhaps people have drawn the wrong conclusions on. For example, there was a period over this last cycle where a lot of people were comparing NCREIF results to private market results or to public market results and NCREIF appeared to be defying gravity, if you will. But at the time NCREIF was allowing companies to do internal valuations and so it contributed to some of that gap in value.

NCREIF has changed that policy now to where all properties in the index have to go through a third-party appraisal but recognize third-party appraisals aren't always perfect. And so I think you still have noise on that front.

And then even in the transactions market, you are going to see differences in terms of stocking level and productivity that may or may not be apparent to the outside player and then as it relates to the public market valuations, as we and others have talked about, the South in particular is not a homogenous market. You've got big differences in value and I'm not sure that we are a believer in what you hear of say a new normal of pricing. I think it really depends on the attributes of the property, the stocking, the growth rates, etc.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay, that's helpful. Again, good luck in the fourth quarter. Good luck in 2016.

Operator

Thank you. At this time I show no further questions on queue. I would now like to hand the call back over to Mr. Mark McHugh for closing remarks.

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

Sure. Thanks for joining the call and please feel free to follow up with me with any additional questions. Thank you.

Operator

That concludes today's call. Thank you for your participation. You may now disconnect.
