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RYN - Q2 2019 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 2Q19 sales of $185m, net income attributable to RYN of $19m or $0.14 per share. Expects FY19 net income attributable to RYN to be $54-63m and EPS to be $0.42-0.49.

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PRESENTATION

Operator

Welcome, and thank you for joining the Rayonier's Second Quarter 2019 Teleconference Call. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would now like to turn the call over to Mr. Mark McHugh, Senior Vice President and CFO. Sir, you may begin.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

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

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 our teleconference with opening comments from David Nunes, President, CEO. Dave?

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

Thanks, Mark, and good morning, everyone. First, I'll make some overall comments before turning it back over to Mark to review our financial results. Then I'll review our U.S. and New Zealand timber results and following the review of our Timber segments, Mark will review our real estate results as well as our outlook for the remainder of 2019.

For the second quarter, we achieved earnings per share of $0.14 and adjusted EBITDA of $61 million. Market conditions during the quarter continue to be challenging albeit uneven across our different segments.

In our Southern Timber segment, we delivered another strong quarter despite lower volumes following accelerated harvest activity in the first quarter of this year. Our markets benefited from increased demand from new mill facilities as well as constricted supply due to wet weather.

Southern Timber results were also bolstered by very strong nontimber income in the quarter. In our Pacific Northwest Timber segment, pricing dynamics continued to be unfavorable due to the ongoing U.S.-China trade dispute as well as challenging lumber end-markets. Based on these unfavorable market conditions, we made the decision to defer some additional volume from our planned harvest during the quarter as well as reset our expectations for the balance of the year, which we'll discuss later on the call.

Our New Zealand Timber segment also had to contend with challenging market conditions due to weaker demand from China and competition from alternative supply sources, which resulted in lower harvest volumes and declining export sawtimber prices. Export sawtimber prices to China dropped by roughly $20 per cubic meter between late May and mid-July before stabilizing and improving modestly over the last few weeks. The decline was driven by a confluence of factors, including slower construction activity, high port inventories, a weaker Chinese currency and competition from lower cost alternatives, particularly European lumber from beetle kill and windthrow salvaged timber.

While we believe export markets have generally stabilized and began to rebound, we are continuing to monitor the situation closely.

Lastly, our Real Estate segment delivered a strong quarter driven by a significant unimproved development sale consisting of 784 acres at a price of over $18,000 per acre. As we've stated in the past, this business is all about premium. And we're very pleased that our real estate strategy is continuing to yield strong results that meaningfully augment our core timberland returns.

Overall, I'm pleased with how our team navigated these various market challenges to deliver strong operational results during the quarter. Nevertheless, pricing dynamics in the Pacific Northwest and New Zealand continue to be unfavorable relative to our expectations going into the year. Thus, we have revised our full year guidance to reflect this. We now anticipate full year adjusted EBITDA of $245 million to $265 million and earnings per share of $0.42 to $0.49.

And with that, let me turn it over to Mark to review our financial results.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Thanks, Dave. Let's start on Page 5 with our financial highlights. Sales for the quarter totaled $185 million, while operating income was $31 million and net income attributable to Rayonier was $19 million or $0.14 per share.

Pro forma EPS was also $0.14 per share as we had no pro forma items in the quarter. Second quarter adjusted EBITDA of $61 million was significantly below the prior year quarter adjusted EBITDA of $111 million due to lower contributions from each of our Timber segments as well as significantly lower adjusted EBITDA on our Real Estate segment as the prior year quarter included a $43 million nonstrategic/timberland transaction in Louisiana.

On the bottom of Page 5, we provide an overview of our capital resources and liquidity at quarter end as well as a comparison to year-end. Our cash available for distribution or CAD for the first half of the year was $95 million compared to $164 million in the prior year period, primarily due to lower adjusted EBITDA as well as higher capital expenditures. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on Page 8 of the financial supplement.

We closed the quarter with $131 million of cash and $975 million of debt. Our net debt of $844 million represented 18% of our enterprise value based on our closing stock price at quarter end.

I'll now turn the call back over to Dave to provide a more detailed review of our timber results.

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

Thanks, Mark. Doug Long, our Senior Vice President of Forest Resources is in China this week, so I'll be discussing our Timber segment results in his absence. We'll start on Page 9 with our Southern Timber segment.

Adjusted EBITDA on the second quarter of $28 million was $14 million and $3 million unfavorable compared to the prior quarter and prior year quarter, respectively. Second quarter harvest volume of approximately 1.3 million tons was 34% and 14% lower than the prior quarter and prior year quarter, respectively. The reduction in volume was expected after record level stumpage removals in the first quarter.

Further, we typically see lower volumes in the spring as many mills take maintenance downtime and wetter weather often limits the operability of lands. The average pine pulpwood stumpage price of $17.16 per ton was 4% unfavorable compared to the prior quarter, but 7% favorable compared to the prior year quarter. The reduced price compared to the prior quarter was primarily the result of geographic mix, coupled with some softening in markets in our Gulf States region. Compared to the prior year quarter, pulp prices in all markets were favorable, which was primarily driven by wet ground conditions at the beginning of the year restricting supply.

The average pine sawtimber price of $25.82 per ton was 2% unfavorable to both the prior quarter and prior year quarter. The slight decline in pricing compared to the prior quarter was primarily due to a reduction in export prices as domestic pricing was relatively stable. In comparison to the prior year quarter, the decline was due to geographic mix with an increased proportion of volume harvested in our Gulf States region.

Our nontimber income continued their impressive run in the second quarter with sales of $9 million. The team is on place for a record year with year-to-date nontimber revenue of $19 million driven primarily by increased recreational license income and pipeline easement sales.

Now moving to the Pacific Northwest segment on Page 10. Adjusted EBITDA of $2 million was $1 million and $13 million unfavorable compared to the prior quarter and prior year quarter, respectively. Second quarter harvest volume of 250,000 tons was 12% and 33% lower than the prior quarter and prior year quarter, respectively. As I mentioned earlier, we continue to pullback harvest volumes in the second quarter in response to soft market conditions resulting from the ongoing U.S.-China trade dispute and weak lumber markets.

The average delivered sawtimber price of $78.35 per ton was flat compared to the prior quarter and 24% unfavorable compared to the prior year quarter. Following the significant decline in pricing from the third quarter of last year when the trade war heated up, pricing has been relatively stable over the last 3 quarters. The average delivered pulpwood price of $42.26 per ton was 6% and 15% unfavorable compared to the prior quarter and prior year quarter, respectively. The change in pulpwood prices compared to both periods was driven primarily by reduced export demand for chips, yielding increased fiber supply for domestic mills.

Page 11 shows the results and key operating metrics for our New Zealand Timber segment. Adjusted EBITDA in the second quarter of $20 million was $2 million and $6 million unfavorable compared to the prior quarter and prior year quarter, respectively. The unfavorable variance compared to the prior quarter was due to lower export prices into China and lower nontimber revenue, partially offset by 13% higher volumes related to the timing of export shipments. The unfavorable variance compared to the prior year quarter was due to lower export prices, 7% lower harvest volumes and foreign exchange impacts.

The average delivered export sawtimber price of $111.81 per ton decreased by 4% and 7% compared to the prior quarter and prior year quarter, respectively. Pricing for sawlogs in China dropped due to a combination of slower construction activity, high port inventories, a weaker Chinese currency and cheaper lumber alternatives from Europe. Average domestic sawtimber prices of $82.66 per ton in U.S. dollar terms were 1% and 4% unfavorable to the prior quarter and prior year quarter, respectively, due primarily to changes in the New Zealand dollar to U.S. dollar exchange rate.

Excluding the impact of foreign exchange rates, domestic pricing in New Zealand dollars was 2% favorable compared to both the prior quarter and prior year quarter as demand remained healthy domestically. The average domestic pulpwood price of $39.10 per ton was flat compared to the prior quarter and 2% favorable compared to the prior year quarter. The change in pulpwood prices compared to the prior year was a result of increased pulpwood export demand from India.

In our Trading segment, we recorded an adjusted EBITDA loss of $0.2 million, which was $0.7 million and $0.4 million unfavorable compared to the prior quarter and prior year quarter, respectively, due to lower volumes and lower export prices to China.

I'll now turn it back over to Mark to review our Real Estate results and outlook for the remainder of the year.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Thanks, Dave. As highlighted on Page 12, our Real Estate segment delivered strong results in the second quarter. Sales totaled $23 million on roughly 3,300 acres sold at an average price of $6,900 per acre. Adjusted EBITDA for the quarter was $18 million.

Sales in the Improved Development category totaled $173,000, which consisted of the final 6 residential lots in the initial Village Center phase of our Wildlight development project. In total, we have sold 84 residential lots at an average price of $46,000 per lot since the inception of the project.

Sales in the Unimproved Development category totaled $14 million, which consisted of 784 acres in St. Johns County, Florida, sold at a price of over $18,000 per acre. In the Rural category, sales totaled $7 million on roughly 1,700 acres sold at an average price of $4,000 per acre. Our rural program continues to show strong demand in Texas and Florida, where we've been able to capture strong HBU premiums to Timberland values with minimal incremental investment.

Lastly, sales in the nonstrategic and timberlands category totaled $1 million, consisting of 763 acres at an average price of $1,500 per acre.

Now moving on to our outlook for the balance of the year on Page 14 of our financial supplement. As noted in our earnings release, based on the lingering U.S.-China trade dispute and its associated market impacts, we are lowering our full year guidance. We now anticipate full year net income attributable to Rayonier of $54 million to $63 million, EPS of $0.42 to $0.49 and adjusted EBITDA of $245 million to $265 million. Additional details regarding our updated guidance, including a reconciliation of adjusted EBITDA to net income and EPS can be found on Schedule G of our earnings release.

With respect to our individual segments, we expect that our Southern Timber segment will achieve full year volumes in line with our prior guidance of 6.2 million to 6.3 million tons with higher adjusted EBITDA of $120 million to $125 million. The improved outlook is driven primarily by strong year-to-date results in nontimber income. We expect that pricing in U.S. South will remain relatively stable with quarterly fluctuations driven largely by geographic mix.

In our Pacific Northwest Timber segment, we now expect full year harvest volumes of approximately 1.2 million tons, a decline of 11% from the midpoint of our prior volume guidance. As Dave noted earlier, our revised volume guidance reflects our decision to defer harvest in the Northwest due to unfavorable market conditions. Despite the near term impact to earnings of this decision, we're confident that it's the right thing to do from a long-term value perspective. Given the current status of the U.S.-China trade dispute, we expect limited upside to current prices for the remainder of 2019.

Taking these factors together, we're reducing our outlook for full year adjusted EBITDA in our Pacific Northwest Timber segment to $13 million to $16 million.

In our New Zealand Timber segment, we remain on track to achieve our prior full year volume guidance of 2.7 million to 2.8 million tons, although we've seen a meaningful drop in export prices relative to average pricing in the first half of the year. We anticipate some improvement in pricing through the second half as export market settle down and log inventories in China ports normalize.

In sum, we now expect full year adjusted EBITDA in our New Zealand Timber segment of $72 million to $77 million.

Lastly, in our Real Estate segment, we expect to achieve full year adjusted EBITDA of $64 million to $70 million with the balance of our real estate transaction activity concentrated in the fourth quarter. Note that our Real Estate segment typically generates very high operating income margins, thus we expect that EPS in the second half of the year will also be concentrated in the fourth quarter.

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

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

Thanks, Mark. We've talked a lot in the past about our operational flexibility, our nimble approach to capital allocation and our focus on building long-term value per share. It's times like these that require the fortitude to make difficult short-term decisions for the sake of preserving the long-term value of our Timberland assets. I'm very proud of our team for the way that we've executed operationally amidst the challenging market backdrop during the first half of this year. The U.S.-China trade dispute has generated some difficult market headwinds for our business, but I remain confident in the long-term value potential of our underlying assets and the commitment of our team towards maximizing that value potential.

In closing, I'd like to announce that we'll be hosting an investor tour and teach-in session at our corporate offices on Thursday, September 26. We look forward to showcasing portions of our Southern Timber portfolio and our Wildlight development project. This event will be open to sell side research analysts and members of the professional investment community. Additional details will be forthcoming.

This concludes our prepared remarks and I'll now turn it back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Collin Mings of Raymond James.

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

To start, Dave, can you maybe just expand on the decision to ratchet down harvest activity in the Pacific Northwest but not New Zealand, although you're seeing weakness in both markets?

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

Yes. I think it's really a relative statement. And I think before sort of jumping into -- specifically into the question, recognize that we have flexibility to change harvest by roughly 10% to 15% due to labor availability. And I think it's important to note that both regions are short of labor. So when you -- if you put on the brake too heavily, you certainly run the risk of losing experienced contractors. So we're always mindful of that. The other thing I would note getting more specifically to your question is, that the Pacific Northwest has experienced a much greater decline in pricing relative to New Zealand. Order of magnitude year-over-year, we saw a 7% drop in New Zealand and a 24% drop in the Pacific Northwest. While New Zealand had a more recent 15% drop, we think that Northwest has more headwinds associated with U.S.-China trade dispute. And as it relates to New Zealand, we've seen some recovery already since the correction that we experienced roughly a month ago. And then the last thing I would say is just in a historical context, New Zealand is generating very strong cash flows relative to the historical performance of that business, and so kind of keep that in mind. We need to be mindful that we're comparing New Zealand against some very strong record cash flows from last year.

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

That's helpful, Dave. And maybe continuing along with the New Zealand and some of the volatility there you've seen. Maybe just expand a little bit more on, again, you just reiterated the fact that you've seen maybe some stabilization or some improvement there over the last few weeks in New Zealand. Just talk a little bit more about that volatility. And has it been some of these competing sources that you referenced in the prepared remarks, have they started to back away from the market? Has there been more takedown of the port inventories. Just -- maybe just give us a little bit more kind of realtime update what you're seeing in New Zealand just given that sharp correction towards the end of 2Q?

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

Sure. And there's a lot of moving parts to this, but if you start -- let's start and talk a little bit about inventory in China. That's something that we watch very carefully. If you go back, we ended 2018 with about 2.4 million cubic meters of inventory at China ports. We consider that to be a very favorable condition. As we went into the Chinese New Year, that grew to 4.4 million cubic meters. Recently, the inventory has been at 4 million, which is roughly 1 million cubic meters higher than it was last year. The way we think about it here is we look at the ratio of inventory to demand, expressed in terms of the number of months. And generally speaking, if we see that ratio at or below 2 months of demand, we consider the markets to be pretty healthy from a pricing standpoint.

Towards the end of Q1, we saw this ratio climb up to 3 months after the Chinese New Year where we experienced some sluggish return to construction activity, which impacted that. We saw in June a big increase in New Zealand log shipments, which grew 26% year-over-year and that really is what contributed to this 15% price correction that we saw towards the end of June. We have subsequently seen the inventory to demand improve to roughly 2 months. And so, we're encouraged by this for a number of factors. First of all, we are entering a normally increased construction demand period in China and so, as such, we weren't terribly surprised to see recent small increases in the neighborhood of $2 to $3 per cubic meter on log prices. So that's a high level sense of where things stand on the inventory sense. I think the bigger impact, if you go back to what I was describing earlier, we have seen a big jump in lumber volumes going into China, and that's probably been the biggest factor on the margin that has influenced markets.

In May, in the main Yangtze Delta lumber ports, we saw lumber inventory climb to 1.9 million cubic meters. This is roughly 2x the level it was in 2018. And a lot of this is being driven by volume coming from Europe. Europe has experienced some pretty severe damage associated with beetle kill as well as windthrow damage. And just to give you some sense of that, there are 4 countries that have contributed to this fairly significantly: Germany, the Czech Republic, Switzerland and Austria. They have -- in terms of the percent of harvest in those countries associated with either beetle kill or windthrow volume, they've gone from 28% of their harvest in 2017 to 53% in 2018, and we've seen big jumps in both of these categories. Beetle kill volume in 2017 in these 4 countries was 12 million cubic meters, it grew to 31 million cubic meters in 2018. And the windthrow went from 15 million cubic meters in 2017 to 20 million cubic meters in 2018.

The One Road One Belt initiative in China, which has really opened up rail linkage into Europe has also facilitated the movement of these increased lumber volumes into the China market and so, not unlike what we experienced when we saw the beetle kill epidemic hit western Canada, we've seen a big movement of volume into the Chinese market. And it's going to take some time for that to be fully absorbed. And we think that it represents at least for the short period of time some element of substitution that's going to impact log markets really from all countries. What we've seen in terms of the impact is that more marginal suppliers into that market have really started to drop off and that's probably something that we view as positive. You've got marginal log supply from places like Uruguay, Europe and U.S. South has recently more or less largely stopped, and that's a response to both market conditions as well as these competing lumber supplies. As we think about our own business, we still believe that New Zealand is very well positioned in that market as is the Pacific Northwest once we get this trade dispute behind us and to a lesser extent, the U.S. South.

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

Dave, would it be fair to say, and I appreciate all the detail there, again, I'm recognizing it's sum of both, it sounds like some of the weakness in New Zealand here might be more of a supply issue than a material shift in demand. Is that a fair way to characterize it?

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

Yes. I mean, I'd say that the market in general has probably been more supply impacted than demand impacted. We continue to see strong construction statistics coming out of China. We saw -- if you look at construction consumes roughly 70% of softwood log demand in China. And 2 big pieces of that are residential floor space and commercial floor space, which are up 19% and 17%, respectively. So I think there really is more of a supply situation and a trade-off or a substitution issue between both lumber and logs. And as we've seen those trade volumes slow down, both in New Zealand and in some of these more marginal geographies, we've seen that inventory correct pretty quickly. And so, I expect it to improve really based on that.

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

Okay. Two more, just quick ones from me. Just earlier this year, as it relates to New Zealand, you cited some potential margin pressure from higher shipping cost. Is that still kind of factored into your guidance? Is that still something that you expect to be a headwind?

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

It's still factored into our guidance. Recognize that shipping costs are also a function of competition for ships. And as we've seen the falloff in Pacific Northwest activity for example, that's translated into lower freight rates and so I think the reference that you're making is really to the broader issues around low sulfur fuel, which we still continue to monitor very closely and have baked into our expectations as it relates to the second half.

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

Okay. And then last one from me, just on the capital allocation front. Can you just maybe elaborate a little bit more on the acquisitions in the U.S. South?

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

You bet. We've continued, as we discussed last quarter, we've continued to focus on small bolt-on transactions. We feel that these generate higher levels of return and less competition than the larger auction type situations. So we're always on the lookout for those. In Q2, we completed 5 bolt-on transactions, all in Florida and Georgia. They totaled $14 million encompassing approximately 8,000 acres at a price of roughly $1,700 per acre. Through the first half of the year, we've closed on a total of $26 million on 8 transactions spanning all 3 of our segments at a price of approximately $1,850 an acre. So these are not big needle movers, but we think that this is a period of time to be somewhat prudent on the acquisition side and so we continue to like a lot of these small deals.

Operator

Our next question comes from Ketan Mamtora from BMO Capital Markets.

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

First question, just coming back to New Zealand and not trying to put too fine a line, but can you give us some sense on where your current export log prices are on a percentage terms maybe, either year-over-year, quarter-over-quarter, any sense that you all can give us?

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Yes, quarter-over-quarter, Ketan, I think that they are probably down in the sort of 15% range.

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

So Q3...

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Like Dave noted in the comments, I mean, we saw a fall off. Pricing had been sort of in the $135 per cubic -- per JAS cubic meter in kind of the April time frame and we saw that kind of drop in -- to the kind of $110 to $115 range.

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

Yes, and it's since sort of crept up by a few dollars.

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

Got it. That's very helpful. And then turning to capital allocation again, has your view changed at all in terms of which regions look more attractive? You've done most of the smaller ones in the U.S. South, but as you step back, any opportunities in other region given these short-term uncertainties that are providing more opportunity?

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

I think a lot of it -- we look very carefully across different regions and we have a pretty robust process for taking a risk-adjusted approach at them. I think that largely our -- as we think about acquisitions and we think about capital allocation, we're also thinking about very much in a defensive mode and we like to think about it in terms of things that can go wrong in a market sense and being factoring those in. And so that has generally led to a bias for us in stronger performing markets and you've seen that in the activities that we've had both on the buy side and the sell side. And so we're very much more gun-shy, I would say, in looking at some of the more marginal market regions out there. And we have specific targets, but they tend to be focused on stronger markets.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Ketan, I will just add to that. I mean, recognize -- there -- you may see some volatility in earnings associated with some of these market dislocations. You tend to see a lot less volatility in asset values. The private market for Timberland is very sophisticated. It's a very long-term market. They tend to look through the short-term market dislocations. Timberland is underwritten on a 25- to 50-year DCF basis using some estimate of trend line prices. And so you just don't tend to see bargain purchase opportunities when you see these type of market dislocations. And also recognize that the asset class as a whole tends not to be very highly levered. And so you don't see much in the way of distress selling. And so look, we're going to experience some earnings volatility associated with this. We've certainly seen some stock price volatility, but that doesn't generally translate into underlying asset value volatility. So clearly, we see as an opportunity to potentially arbitrage those dislocations through share buybacks and the like, but doesn't really change our mindset around acquisition opportunities longer term.

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

Got it. And Mark just remind me, what do you have by way of share repurchase authorization right now?

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Yes. We currently have a $100 million authorization in place of which roughly $99 million is still available, and that's -- I believe that was put in place back in 2016.

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

Got it. And then turning to Pacific Northwest, are you still seeing pressure on prices due to the trade uncertainty? Or are you seeing things stabilize at this point?

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

I think we're still seeing a somewhat of a reticence of exporters to have volume on the water, if you will, while there's still uncertainty in the trade dispute. And a case in point, earlier in the year, there was the expectation that tariffs in the Northwest would go from the current 5% to something in the 20% range. And so that really dried up activity. And I think we're still seeing people behaving in a somewhat cautious manner as it relates to the export side. And then the important thing to recognize as well is this is coming at a time when the domestic markets are struggling a bit. You've got lumber producers dealing with high levels of finished good inventory and soft pricing and so they are not anxious to add to log decks. And so you really got weakness in both of those fronts. And it's all about price tensioning in terms of healthy markets. And I contrast that with New Zealand that while you've had some decline recently on the export side, the domestic market continues to be pretty strong.

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

That's helpful. And then last question from my side. In terms of the jump that you all are seeing from Europe, do you think that is more of a short-term phenomena as they clear out the beetle kill wood? Or do you think structurally anything has changed where this is more like a consistent supply and a new avenue of supply?

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

I mean, we've certainly seen activity by -- at a government level to subsidize the removal of this material before it degrades and no longer has value. And so that would suggest that you'll see them plow through this fairly quickly. I think it's way too early to get a sense of whether there is anything structural going on. Certainly, one thinks about the linkage with climate change and whether we're going to see more of this across that region and certainly, the rail linkage to China facilitates the harvest and processing of this material into lumber.

Operator

Our next question comes from John Babcock of Bank of America.

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

Just actually wanted to start out just on kind of the guidance. Given some of the factors you've discussed, I was wondering if you could talk about what gets you ultimately to the high and low end of the EBITDA range that you've set out?

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

John, we provide very detailed guidance by segment in the supplement and so that will kind of give you the range of expectations for each segment.

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

Okay. But I guess, I was wondering though, I mean, where do you see, I mean like recognizing that, I mean like, what do you see as the big factors that are driving that sort of (inaudible) across the segments?

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Clearly, the China trade dispute has been a big headwind. And so clearly, if we saw some resolution of that, I think that, that would be -- that would certainly be a net positive for our business. I think going into the year, we certainly -- I think that there was a general sense of optimism that there would be a near-term resolution. As we sit here today, that sense of optimism has certainly waned. And so we -- that's really the genesis of the reset for expectations for the year was to try to kind of reflect that in terms of the balance of the year.

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

Okay. And then as far as weather, I mean, clearly, it seems like the weather this year has been particularly bad relative to last couple of years and perhaps even relative to historical levels. Just wanted to get a sense, I mean, how much did that impact your harvest and also harvest cost during the quarter? It didn't seem like there was too much discussion on that, so maybe it was relatively minimal, but just wanted to get some color on it.

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

Well, recognize that in the U.S. South, a lot of our sales activity are done through stumpage sales. And so you're not seeing that direct linkage. You're seeing it certainly in an indirect sense. And also recognize that we're trying to take advantage of tensioned markets when we get these weather events. And we saw a shift in Q1, we saw a more heavy weather in the Atlantic regions in Q2. It was really more in the Gulf regions. And so we think we're going to continue to see those types of shifts occur as you get weather. That said, I think we're also encouraged by the impact that we've seen in our wood basins of the new capacity that's come online from a lumber perspective.

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

Okay. And then just last question before I turn it over. You've already talked a fair bit about the logs coming from Europe. Just want to get a sense, I mean, are those largely competing in the same markets as your New Zealand logs or are there some discrepancies as far as your kind of end-market demand there?

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

It's lumber coming from Europe, not logs. And so, you're really dealing with sort of substitution level effects, 1 layer deeper into the market.

Operator

Our next question comes from Steve Chercover of D.A. Davidson & Co.

Steven Pierre Chercover - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

So my first question was with respect to, I guess, it's ultimately China, but how correlated are European lumber prices to North American values?

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

Well, you certainly see evidence that European lumber will flow into this market in certain market conditions. We saw that last year. We saw a fair bit of, I want to say it was in a 1.5-billion-board-foot range of lumber come into this market. I have less of a sense of where that sits this year as we've dealt with softer demand.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

I don't have a (inaudible) feet, but I would say, they probably -- my sense is that they probably become more correlated at higher prices where it actually can make sense to export lumber to the U.S. as opposed to consuming it domestically. High lumber prices aren't always necessarily a positive for southern producers because it does generally lead to a higher level of imports, which are competitive with U.S. supply, and ultimately, U.S. production.

Steven Pierre Chercover - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

I mean, where I was going with that is, yes, we've got $600 lumber domestically, then you're going to draw on imports, but I should think that if there's a correlation then lumber prices are now fairly cheap in Europe too and it's just astonishing to think that these landlocked countries can ship profitably into China despite the improvements in rail.

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

Well, it's subsidized, Steve. Recognize that a lot of that is because the governments are subsidizing the removal of that wood so that it doesn't rot.

Steven Pierre Chercover - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Yes. I figured that China is almost providing a waste management service in this respect, well, so aggravating. And then, secondly, it seems reasonable for me that you are throttling back on your Pacific Northwest harvest volumes. How does that impact your long-term inventory levels? Are they getting back in the balance because, I guess, 10 years ago, you got a little upside down on inventories by overharvesting during the downturn. I don't know if that's been fully addressed yet.

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

Yes. I mean, certainly, we've done -- the moves that we've made in a portfolio sense back in 2016 where we sold some younger land and acquired some older age-class properties. That went a long way towards closing that gap, but it didn't fully close the gap. And as we disclosed back then, we would be harvesting at below our sustainable level for roughly a decade associated with those moves and certainly when we defer harvest we're chipping away at that by allowing that inventory to grow more. So we think from an asset standpoint, the asset's going to benefit and we'll get that much closer to getting back to our sustainable harvest level.

Operator

Our next question comes from Mark Weintraub of Seaport Global.

Mark Adam Weintraub - *Seaport Global Securities LLC, Research Division - MD & Senior Research Analyst*

I'm just trying to sort through the drivers in the Pacific Northwest because it seems like there have been 4 that I've heard on the call that might be having an impact. One, being -- you mentioned, obviously, the China trade situation, the weak U.S. housing market, what's been going on in Europe with more wood going into China, which presumably displaces logs that could have gone from Pacific Northwest and be processed and then also, the U.S. South making more lumber. And so, I guess -- I recognize that it's hard to figure out how much to wait on all these different variables. But if the China trade situation were to be resolved relatively quickly, how impactful do you think that actually would be if everything else stayed the same, at least in the short term to the Pacific Northwest?

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

Mark, I think another thing to think about in your list, and those are all good items, is the supply coming out of Canada. And recognize that we've seen capacity announcements that are pretty substantial in Canada in terms of capacity coming out. And so, that has largely though not played out in lumber markets because you were also dealing with very high lumber inventory. So I think that that's an important overlay against this. Because as you think about things like the European lumber into China, that's going to have an effect of displacing some Canadian lumber, which is going to make -- want to come into the U.S., but you've also then have the overlay of reduced production out of Canada. And so recognize that lumber pricing is always going to be, to some degree, a function of the system-wide inventory levels and right now, those are affecting pricing. So I think that any resolution of the trade dispute, you have to also look at it in the context of where we're at with the supply chain on the lumber side of things. That will have an impact on the sort of the elasticity of any market recovery.

Mark Adam Weintraub - *Seaport Global Securities LLC, Research Division - MD & Senior Research Analyst*

Fair point. And that's going to presumably be a positive, the closures and as they work through their inventory, the Canadian (inaudible) wood coming in, so that'll be a positive regardless of what happens with China. And so I guess, just as a follow-up. I'm just trying to -- so how is it that the China trade situation is affecting business out of the Pacific Northwest right now?

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

It's just lower export volume and that export volume is ultimately competitive with domestic mills. And so I mean, even in more depressed housing environments, you've seen some price volatility and certainly some significant positive momentum kind of driven by strength in the export market, which we just don't have right now.

Mark Adam Weintraub - *Seaport Global Securities LLC, Research Division - MD & Senior Research Analyst*

And I apologize, maybe I'm just missing something obvious, but -- and so there's the 5% tariff, as I understand it. How else is it that it's depressing? What other factors? Is it the uncertainty is still such that people are choosing not to export and otherwise would be able to be going to market right now even despite the European wood going into China, et cetera?

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

I mean, some of that is we've described in prior calls was the concern or the expectation that, that tariff was going to jump to 20% or 25% as it is in U.S. South and no one wanted to be caught up with exposure from an inventory standpoint. Most of the volume coming out of the Northwest is controlled by brokers who are taking control of title. And you're buying it at a one price and then you're selling it at another price. But you have to bake in time to build that level of inventory up, get it on a ship, get it across the water and so you have some market exposure during that period of time. And so, while we've seen the threat of that tariff rise in place, no one wants to be in that position of absorbing that big of a hit, and recognize that tariff is on the delivered price, not the base price and so it's a big impact, and that's really slowed down and made the market participants in the Northwest a lot more cautious.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Mark, recognize you also have a devaluation of the Chinese yuan relative to U.S. dollar, which has certainly impacted relative pricing in domestic currency in China, that export log. It's not just the 5% tariff, it's really all the knock on effects of the U.S.-China trade dispute as well.

Operator

Our next question comes from Paul Quinn of RBC Capital Markets.

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

Just a question on, I guess, lumber capacity, what you're seeing in the U.S. South there on the additions. I note that lumber production in the U.S. South, at least to the end of May, is down. Are you still seeing additional capacity additions coming into the marketplace? And are you still bullish on the medium and longer term outlook for log prices down in the U.S. South?

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

I mean, I think the short answer is, yes. And if you kind of pull apart the pieces of this, we had roughly 6 billion board feet of proposed capacity changes from 2017 to 2021. And if you use a rough conversion factor that translates to roughly 24 million tons of incremental log demand. And then as you peel that back in different layers, roughly 1 billion board feet of that came online in 2017 towards the end of the year. It was scattered across many mills, but was primarily associated with existing capacity. And so that really didn't come into play until 2018. And then we saw an additional 1.7 billion board feet of capacity come online in 2018. And from our perspective, roughly 75% of that was proximate to the wood baskets that we operate in. Having said that, recognize that sawmill startups are always problematic. They always take a fair bit of time. Much of that new capacity is still in startup mode and is not fully operational yet. It typically takes a few years before those mills are running smoothly and get up to their designed capacity. We have another 1.3 billion board feet that's coming online in 2019. 82% of that is proximal to our wood baskets. And then as we look out in the outer years, we see another 1.3 billion to 1.7 billion board feet coming online in the 2020 to 2021 time frame. Against that, you also recognize that we've seen recent curtailments in Western Canada of roughly 2.7 billion board feet, 1.4 billion of that being permanent and the rest being temporary.

As you think about the lag effect, as I described earlier as it relates to lumber, the lag effect relates to these startups. We have not really begun to feel the full effect of the shift into the U.S. South. And as Mark talked about earlier, it's the lower lumber price environment that I think is going to help accelerate this and we view as positive news when we think about this in a longer term perspective. And so I think we -- yes, we are still bullish as we think about the impacts of the U.S. South and certainly, the relative placement that we have in better wood baskets, we think we're going to benefit from that disproportionately.

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

Okay. Then if I could just flip over to New Zealand. We've been hearing that the log prices are seeing another, like, down, but it sounds like you're more optimistic and you've got guys on the ground. Is it just the export markets that you're seeing a little bit of recovery or are the domestic markets holding up as well?

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Yes. Recognize that ultimately that export price is going to be a driver in your domestic price negotiations. And so if we saw prolonged lower domestic -- I'm sorry, export price, that's certainly going to impact domestic pricing as well. But so far domestic pricing has held up and we seem to have kind of stabilized in the export market and feel some momentum on the positive side.

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

Okay. And then just lastly on the real estate side, just if you could give us an update on what's happening with Wildlight? Where you are -- where you're at in terms of (inaudible) 20 years in the development cycle. What do you expect for the balance of the year there?

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Yes. I mean, for the balance of the year, we're continuing. These are long dated projects. You recognize that when we kind of announced this first phase of the Wildlight development project, it was a 10-year project. And so we're still on the relatively early innings of it. But I'd say, the project is progressing. We're sitting in the midst of quite a bit of construction activity going on around us right now with multi-family units going up kind of next door, number of single-family homes under construction. And so I'd say, it's -- we're continuing to kind of turn along. But it's -- the quarterly results are going to be volatile as we bring new properties to market and whatnot. Again, we're looking at this as a very long dated project and really it is more of a kind of value catalyst for the region than kind of a specific investment that we would have made, but for the fact that we own so much surrounding land.

Operator

Our last question comes from Chip Dillon of Vertical Research Partners.

Salvator Tiano - *Vertical Research Partners, LLC - VP*

This is Salvator Tiano filling in for Chip. So my first question is a little bit about your pricing outlook. It's very clear you were expecting somewhat of a recovery, especially in the Pacific Northwest. Just wondering, when we look at around $78, $79 per ton on your sawlogs in the Pacific Northwest, does it mean you now expect this to remain flat for the remainder of the year, no recovery or do you expect this to actually decline even further?

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Our general expectation is that it's going to be relatively flat. Again I think we've seen on the market be relatively flat for these last few quarters since the trade war heated up. And so that's really our expectation for the balance of the year. Now -- again, you could see some price momentum as we see a pickup in housing. So you could certainly see some positive momentum if some other factors materialize, but our general expectation is roughly flat pricing for the balance of the year.

Salvator Tiano - *Vertical Research Partners, LLC - VP*

Perfect. And just before you mentioned in response to a question, I think, that export sawlogs in New Zealand were down 15% currently. I'm sorry, I didn't actually catch over what period, so that would be early August, end of June -- July versus Q1 average or versus the peak that you saw a few quarters ago?

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

The bulk of the dip occurred in June and kind of into the early part of July, and so that's more or less kind of a May to July statement.

Salvator Tiano - *Vertical Research Partners, LLC - VP*

So just trying to understand -- the numbers we see on the slides, the $112 realized, $116 in Q1, essentially that's pointing to around $100 or $95 for export sawtimber at the bottom?

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

I'm sorry, I'm not sure I'm following you.

Salvator Tiano - *Vertical Research Partners, LLC - VP*

So as we look on the slides for New Zealand export sawtimber, I think Q1 average was $116 per ton. So the 15% essentially is of this number?

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Well, recognize that that's per ton. The prices that we referenced earlier are per JAS cubic meter. We're actually selling the product per JAS cubic meter. So you can look kind of down below at those -- I'm sorry, those export sawtimber prices on the bottom part of the chart, we show the price per JAS cubic meters, you have conversion issues that go into that. The average price in Q2 per JAS cubic meter for export sawtimber is $130, but that's reflective of the higher price having fallen off in June, that is kind of a weighted average for the quarter.

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

As we described earlier, that we ended June at roughly that $110 level. So you get a little bit of a sense of that. It's partially reflected in Q2, but certainly not fully because it occurred all in the month of June and it's come back a little bit since then.

Salvator Tiano - *Vertical Research Partners, LLC - VP*

Okay. Perfect. Going a little bit back to capital allocation. I mean, you clearly indicated preferably that you'd prefer actually bolt-ons in the South. I was just wondering, with all the negatives that was in the Pacific Northwest that was -- they were discussed in detail in this call, would you consider any sales -- any sorry, acquisitions in the region if the price was right? Or do you think you want to focus on areas that have a better growth profile like the U.S. South. And as you mentioned -- and Pacific Northwest maybe out of the question?

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

No, I don't think we -- we still -- we're looking really actively across all of our geographies. The bolt-on comment was really more a statement of what we feel currently we're able to enjoy better returns with bolt-ons in all regions relative to auction environments because there is still a lot of capital trying to get into the timber asset class. And as Mark described earlier, timber is valued on a very long-term basis and so you'll look through market dips and asset values tend to not be as volatile as product price values, and so we're actively looking really all the time both on an auction in a negotiated basis in all 3 of the regions.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

And we're also constantly comparing that relative to the relative value implied in our stock price and so really our philosophy on capital allocation is to stay nimble, stay opportunistic and really try to find those best relative value trades.

Salvator Tiano - *Vertical Research Partners, LLC - VP*

Yes. And actually that was going to be kind of my next question, which is the stock now is close to where it was 2 years ago. You do have the buyback. How should we think of this $26, $27 level for the appeal of the buyback versus M&A? And on the other hand, I think you did some acquisitions with (inaudible) at roughly these levels. Would you consider actually doing something larger on the M&A front that may require (inaudible) or again, at this price, it doesn't make sense?

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

I mean, look, we never can speculate on what we may or may do from an acquisition standpoint or a financing standpoint. But suffice it to say, we're always sort of monitoring the relative value implied in buying back stock versus the acquisition opportunities that we're seeing in the market, and so obviously at a lower stock price that balance can shift in favor of buybacks.

Operator

And I'm showing no further questions and I would like to turn the call back over to speakers for closing remarks.

Mark D. McHugh - *Rayonier Inc. - Senior VP & CFO*

Thank you. This is Mark McHugh. I'd like to thank everybody for joining the call. And please feel free to reach out to me with any additional questions.

Operator

Thank you for your participation in today's conference. You may now disconnect at this time. Have a wonderful day.
