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RYN - Q1 2017 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 1Q17 sales of $186.5m and net income attributable to Co. of $33.8m or $0.27 per share.

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PRESENTATION

Operator

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

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

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

Thank you, and good morning. Welcome to Rayonier's investor teleconference covering first quarter earnings. Our earnings statement and financial supplement were released yesterday afternoon and are available on our website at rayonier.com. I'd like to remind you that in these presentations, we include forward-looking statements made pursuant to the safe harbor provisions of federal securities laws. Our earnings release and Form 10-K filed with the SEC lists some of the factors that may cause actual results to differ materially from the forward-looking statements we may make. They are also referenced on Page 2 of our financial supplement. Throughout these presentations, we will also discuss non-GAAP financial measures, which are defined and reconciled to the nearest GAAP measures in our earnings release and supplemental materials.

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

David L. Nunes - *Rayonier Inc. - CEO, President and 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 we'll ask Doug Long, our Senior Vice President of U.S. Operations, to comment on our -U.S. timber results. I'll discuss our New Zealand Timber results. And following the review of our Timber segments, Chris Corr, our Senior Vice President for Real Estate, will discuss our real estate results.

Before discussing our results for the quarter, I'd like to briefly address our recent equity offering and portfolio moves in the U.S. South. On March 16, we announced that the company had entered into 3 transactions to acquire approximately 95,100 acres of high quality industrial timberland located in Coastal Florida, Georgia and South Carolina. We recently closed on the transactions for a final aggregate purchase price of $214 million, or roughly $2,250 per acre. We're very excited about these acquisitions, as they meaningfully increase our footprint in some of the strongest markets in the U.S. South.

Further, these properties are highly productive with an average site index of 78 feet, an average productivity of 4.7 tons per acre per year. Over the next 5 years, we expect that these properties will contribute on average roughly $13 million of incremental adjusted EBITDA per year to our Southern Timber segment. So while these properties transacted at a relatively high per acre value reflective of their high quality, we expect them to generate a strong cash yield and an attractive long-term return for our shareholders.

Concurrent with our announcement of these acquisitions, we also announced an overnight equity offering of 5 million common shares to fund a portion of the purchase price. We priced the transaction at $27.75 per share on March 17, and the underwriters subsequently exercised their overallotment option, which translated into 5.75 million shares issued for net proceeds of approximately $152 million after deducting transaction fees and expenses. We did not take the decision to issue equity lightly, but we ultimately determined that this particular acquisition opportunity would be an attractive and value-added use of equity capital and would yield incremental NAV per share over time.

Further, it allowed us to maintain our investment grade credit ratios and preserve some dry powder to opportunistically pursue other capital allocation alternatives going forward. Our capital allocation strategy is focused on building long-term value per share by being nimble and opportunistic, and we're pleased to have executed these recent transactions consistent with this strategy.

Now I'd like to switch gears and discuss our first quarter results. In Q1, we achieved adjusted EBITDA of $57.1 million versus $55.6 million in the prior year quarter. Lower volume and pricing in our Southern Timber segment and reduced land sales in our Real Estate segment were more than offset by favorable performance in our Pacific Northwest and New Zealand Timber segments. In our Southern Timber segment, 22% lower volume relative to the first prior year quarter was driven primarily by high volume Q1 last year, in which we saw stumpage customers accelerate harvest activity early in the year due to wet weather conditions in certain areas. In our Pacific Northwest Timber segment, we are reaping some of the benefits of the portfolio repositioning that we executed last year, as our Q1 results significantly exceeded the prior year quarter in both volume and pricing.

In the New Zealand Timber segment, we continue to enjoy strong performance and price gains as both domestic and export market conditions remain favorable. Our real estate results, excluding the gain on the previously announced large disposition, were below the prior year quarter due to fewer acres sold, partially offset by an increase in prices as we pursue a strategy of unlocking value from our higher and better used land portfolio. As we've discussed in the past, we expect our real estate results to be lumpy based on the timing of transactions.

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

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

Thanks, Dave. Let's start on Page 5 with our financial highlights. Sales for the quarter totaled $186.5 million, while operating income was $49.3 million and net income attributable to Rayonier was $33.8 million or $0.27 per share. Pro forma net income was $6.3 million or $0.05 per share. Our pro forma net income for the quarter excludes $740,000 of cost related to shareholder litigation and a $28.2 million gain from a large disposition. Both net income and pro forma net income for the quarter were impacted by GAAP tax expense of $6.3 million, which is primarily related to our New Zealand operations.

Cash taxes for the quarter were de minimis. First quarter adjusted EBITDA $57.1 million was above the prior year quarter, primarily due to favorable results in our New Zealand and Pacific Northwest Timber segments, which were partially offset by lower contributions from our Southern Timber and Real Estate segments. As a reminder, adjusted EBITDA on our Real Estate segment excludes the impact of the previously announced large disposition that we closed during the quarter.

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, was $38.8 million in the first quarter compared to $36.4 million in the prior year quarter, primarily due to higher adjusted EBITDA and lower cash interest paid, partially offset by higher capital expenditures. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on Page 7 of the financial supplement.

We closed the quarter with $219.4 million of cash and roughly $1.1 billion of debt. Our net debt of $855 million represented 19% of our enterprise value based on our closing stock price at quarter end. Note that our cash balance at quarter end excludes $111 million of restricted cash that was held by an LTE intermediary and earmarked for acquisitions. Subsequent to quarter end, we used approximately $207 million of that cash and restricted cash to close the acquisitions that Dave discussed earlier.

I'll now turn the call over to Doug to provide a more detailed review of our U.S. timber results.

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

Thank you, Mark. Good morning. Let's start on Page 8 with our Southern Timber segment. Adjusted EBITDA in the fourth quarter of $26.4 million was $5.6 million favorable to the fourth quarter and $6 million unfavorable compared to the same period in the prior year. First quarter harvest volume of approximately 1.38 million tons was 94,000 tons favorable compared to the prior quarter although 380,000 tons lower compared to first quarter last year. Recall that our southern harvest volume was well ahead of plan in the first quarter of last year due to wet weather and the timing of customer removals from stumpage sales.

First quarter pine pulpwood pricing of $17.29 per ton were 9% favorable to fourth quarter prices and 9% below the same period in the prior year. The increase in prices over the prior quarter was driven by geographic mix as some volume deferred in Q4 was harvested in the first quarter, essentially doubling our pulpwood volume in our best markets. Decline in pulpwood prices compared to the same period in the prior year was due to ample supply resulting from extended dry weather conditions, coupled with reduced demand from mill shutdowns as a result of unforeseen maintenance and accidents.

Pine pulp timber prices of $26.48 per ton were 1% below fourth quarter prices and 2% below the same period in the prior year. The mass decline in average sawtimber prices relative to prior year periods was primarily due to geographic mix. Pulpwood prices of $10.95 per ton were 26% and 12% lower than the prior quarter and the prior year quarter, respectively. In both cases, the reduction in price was primarily due to unfavorable changes in product mix.

Now moving to Pacific Northwest Timber segment on Page 9. Adjusted EBITDA in the first quarter of $9.3 million was $2.1 million favorable to the prior quarter and $3.3 million favorable to the same period in the prior year due to higher harvest volumes and higher average pricing. First quarter harvest volume of 399,000 tons was 12% higher as compared to the prior year quarter and 21% higher than the same period in the prior year. The Menasha acquisition in Oregon, which we closed in May 2016, was the primary driver of the increased harvest volumes. Delivered pulpwood prices of $38.71 per ton were 2% and 14% lower than the prior quarter and the prior year quarter, respectively. The steady decline in pulpwood prices over the last year is due to the increased availability of residual chips on the open market, which has reduced demand for pulpwood logs. Delivered sawtimber prices of $74.88 per ton were flat to the prior quarter and 10% higher than the same period the prior year. The increase in grade prices since the beginning of last year is due primarily to improving export in domestic markets, coupled with an increased mix of Douglas fir logs from Menasha acquisition.

Now Dave will review New Zealand Timber results. Dave?

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

Thanks, Doug. Page 10 shows results and key operating metrics of our New Zealand Timber segment. We continue to see strong results from our New Zealand Timber segment, which delivered another solid quarter.

Adjusted EBITDA of $15.7 million was $2.2 million unfavorable to the prior quarter and $4.3 million favorable compared to the prior year quarter, driven by a mix of volume fluctuations and significantly improved pricing. First quarter harvest volume of 500,000 tons was 11% lower as compared to the prior quarter and 3% higher than the same period in the prior year. Export sawtimber prices increased 4% and 15% compared to the prior quarter and prior year quarter, respectively, primarily due to strong demand from China. Similarly, domestic sawtimber prices in U.S. dollar terms increased 1% and 18% compared to the prior quarter and prior year quarter, respectively, as a result of strong demand for construction materials as well as the rise in the New Zealand dollar to U.S. dollar exchange rate.

Our Trading segment generated adjusted EBITDA of $1.1 million, more than doubling both the prior quarter and prior year quarter. First quarter volumes were flat to the prior quarter and 41% higher versus the prior year quarter due to increased volume from existing customers as well as stumpage blocks acquired from third-parties, which allowed us to address increasing export market demand. Average prices in our Trading segment also increased by roughly 5% and 12% compared to the prior quarter and prior year quarter, respectively.

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

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

Thanks, Dave. As highlighted on Page 11, excluding large dispositions, sales for the Real Estate segment in the first quarter totaled $12.3 million on roughly 6,200 acres sold, which was largely made up of a large nonstrategic/timberland sale in Alabama and 2 rural HBU sales in Texas.

In the rural category, sales totaled $6.7 million on approximately 2,300 acres at an average price of $2,950 per acre. This included 2 sales in Texas for a total of 1,845 acres at an average price of approximately $3,000 per acre. In the nonstrategic and timberland category, we sold a nonstrategic property in Alabama totaling 3,900 acres for $5.6 million at a price of approximately $1,400 per acre.

Looking ahead, we have a strong pipeline of HBU opportunities with a number prospects either under contract or in negotiation and expected to close this year. So despite a relatively light quarter 1, we're still on pace to achieve our full year sales in adjusted EBITDA guidance.

Overall, we remain focused on unlocking the long-term value of our HBU land portfolio with a significant focus on Wildlight, our mixed use community development project north of Jacksonville. Site development on the initial phase of the project is well under way now with approximately 85 acres of mixed commercial highway-frontage parcels and residential lots being prepared for sale to developers and homebuilders. We are now about 1 year into the site development and expect to hit key delivery milestones in the second half of the year, including the opening of the Rayonier office building this summer, the opening of the Wildlight Elementary School in the fall and the announcement of single-family homebuilders before the end of the year. We continue to be very encouraged by the interest we are receiving in the project.

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

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

Thanks, Chris. As we noted in our earnings release, we are on track to achieve our full year adjusted EBITDA guidance following a solid start to the year. In the U.S. South, we continue to experience some price pressure as dry weather has led to an ample supply of logs. However, with the recent announcement of countervailing duties on Canadian lumber imports, we're optimistic that log prices will improve longer term as lumber production is rebalanced and Southern mills gain market share. In our Pacific Northwest and New Zealand Timber segments, we enjoyed a strong start to the year and are solidly on track to achieve our prior guidance. And as Chris noted, despite a light Q1 with respect to real estate closings, our pipeline is strong, and we expect to achieve our full year guidance.

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

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

Thanks, Mark. As you can imagine, we had a very busy first quarter working through the various transactions discussed earlier. We remain committed to active portfolio management as part of our strategy for optimizing the value of our assets and achieving best-in-class returns. Capital allocation remains a top priority for our board and leadership team, and we're confident that the strategic actions that we've taken will benefit our shareholders.

As we've demonstrated over the past 2 years, we'll remain nimble and we'll shift our priorities as needed to capitalize on the best available opportunities to build long-term value per share.

In conclusion, I'm excited about the strong steps forward we've made in executing our strategy and appreciative of the dedication and commitment of our employees in achieving these important milestones.

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

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

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

Maybe just to start, Mark, maybe can you provide a little bit more color just around the guidance? I know, obviously, in the prepared remarks, you indicated that you're on track for the full year as far as adjusted EBITDA guidance, but has the outlook, particularly in the U.S. South, shifted around at all? I mean, you guys highlight maybe some softness in pulpwood pricing. But then you also have completed this acquisition in the U.S. South. So can you provide a little bit more color on that front?

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

Yes. Look, our prior adjusted EBITDA guidance was $220 million to $240 million. And as we think about the year, keeping in mind it's still so early in the year, we feel as though we're well on track to achieve that even before factoring in our recent acquisitions in the South. We're still -- again, we're still early in the year. We literally just closed those acquisitions a couple of weeks ago. So we think it's premature to update our guidance, particularly given that the pro forma contribution from those properties for the balance of the year really isn't going to be a significant dial mover relative to the $20 million range that's embedded in our original adjusted EBITDA guidance. So again, we're pleased with our start to the year. We feel confident about the range with perhaps some upside based on these recent acquisitions. And as it relates to the South, again, the duty just recently got announced. We're still sort of seeing how that's going to play out in terms of lumber prices and ultimately, sawtimber prices in the South. So I think it's still a little early to say kind of how we're thinking about the U.S. South, in particular, for the balance of the year. But we clearly have some incremental flexibility around the acquisitions that we just did. But again, we're going to remain focused on long-term value, and we're going shift around volume as we see fit to kind of maximize long-term value. So again, a little early in the year to kind of comment on the U.S. South, in particular, just given all the recent activity.

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

Okay. But as I look back at the prior guidance of $93 million to $98 million, I think, for adjusted EBITDA for the South, no reason to necessarily think it's going to be higher or lower at that point. You're still just kind of seeing how the year plays out relative to that initial range for that segment?

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

Yes. I think it's really going to be volume-driven. I think it's just going to depend on how we decide to shift around volume during the course of the year on -- just in response to the pricing dynamic. And again, I'd say that, that's still very much in flux with the very recent announcement of the countervailing duties.

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

Okay. And I guess, maybe along those lines, Mark or Dave or Doug. Just, as far as, any sort of initial response from any of your customers that you've seen given the duty announcement last week?

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

Yes, this is Doug. Hello, Colin. Just as Mark said, it's been so early. We really haven't seen any impact from our customers at this point in time. They are still understanding and talking about it, and it feels like folks are -- we're seeing some positive signs in the market with some sawmills in particular starting to look at second shifts and things like that, but I don't really necessarily believe that's due to the countervailing duties as much as it's just demand they're seeing as they look at housing and residential construction and things like that. So we're seeing some positive signs in some select areas, but respect to the duties, haven't really heard anything out of our customers as to how that impacts their thoughts right now.

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

Okay. And then Doug, maybe just can you expand a little bit more -- I know it was in the prepared remarks, but just on some of the softness in the pulpwood pricing. I know that it has been kind of a bright spot for you guys overall in context of your portfolio and where it's positioned in the U.S. South, but just maybe expand upon that a little bit more.

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

Sure. Well, as you're aware, we were in a severe drought, which kind of happens after we get these La Nina conditions like we've had for 2016. And so we have seen ample amount of logs on the market, as Mark mentioned, and that's kind of reduced the amount of demand needed from our operations. Another thing that was pretty significant for us in the first quarter was the multiple pulp mill explosions that happened. So that's -- those are 2 of our customers, the PCA in DeRidder and the IP Cantonment. So both of those are also shutting down for a period of time caused additional volume to be out there in the market that shifted around and moved around, around -- to different locations that normally wouldn't. So we just saw a lot more supply than normal in the first quarter.

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

Okay. And then I'll go back to just a housekeeping question, I guess, for Mark. It looks like the tax rate was a little higher, that the income tax number was a bit high. Can you just maybe explain what's driving that? Because it looks like that was a delta as far as the EPS number.

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

Yes, Sure. GAAP income tax expense for the quarter was $6.3 million. I mean, that's versus a tax benefit of $0.8 million in the prior year quarter. So we had $7.1 million swing in that tax expense line item, and that's also relative to $11 million of full year guidance that we provided for income tax expense. So we recognize that Q1 was probably well ahead of what most of you have been modeling. Recall that our New Zealand Timber segment is the primary driver of GAAP income tax expense. However, GAAP requires that we accrue income taxes during the year based on our pro rata consolidated pretax book income for the quarter. And that's relative to our full year expectation. So due to the large disposition that closed in Q1, our consolidated pretax book income for the quarter was disproportionally high, and that's what was really driving the larger income tax expense for the quarter. So again intuitively, you would expect that the income tax expense would accrue based on the proportion of the income that's actually generating the tax, but that's not the case. Keep in mind as well that our cash taxes remain relatively de minimis due to the NOLs that we have in New Zealand, but it was really just a GAAP item that did occur this quarter that was really kind of outsized in nature.

Operator

Currently, we have 5 questions in queue. And our next question comes from Mr. Mark Wilde of BMO Capital Markets.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

I wondered just, Doug, going back to kind of pulpwood for a second. Is it possible to give us some sense of the impact of those 2 mill outages on your pulpwood volumes in the quarter?

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

Sure. Give you some relative impact there. The IP Cantonment mill, in particular, was a large customer of ours. So before the explosion, we were sending over 150 truckloads a week to that mill. So that mill being down throughout the quarter had a serious impact on us. Also the PCA DeRidder, while it was a shorter shutdown, that's another one of our primary customers that we have. And so that one was less extent, but similarly still created a drag. So we saw about 30% less pulpwood demand for our delivered program in the quarter due to those explosions.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

Okay. All right. That's helpful. Another thing that you mentioned just briefly in the release, but we didn't really talk about too much. I see that there's been a big increase in Southern log export volumes early in 2017. I know it's off of a low base, but I wondered if you could talk a little bit about what's going on there and the degree to which Rayonier is participating in that increase in kind of Southern log export sales?

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

Sure. I'd be happy to. You're correct. We've seen a lot of demand along the Atlantic Coast, in particularly, for exports. And as you say, while it's a low base, it was about 3% of our volume in Q1 2016 off of Atlantic Coast. And in Q1 of 2017, moved up to almost 20% of our grade volume coming off of our Atlantic Coast. So a significant increase over the course of the year. And we just see continued demand. We've had multiple new exporters come in, including one who has recently moved in 80 miles inland into Georgia and set up shop. So that's good for us to see. That means, we're starting to see real tension in that market as you have the ports kind of getting competitive and then seeing people coming inland. So we're excited to participate in that, and it's been a very nice premium compared to the domestic markets in this area. So we're encouraging it as best as we can.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

And Doug, where exactly are those log exports going? Are they going to China? But are they also going to places like Turkey or elsewhere?

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

So for the logs, they're primarily going to China. And one of things about the East Coast over here is most of them are going in containers. And so often, they're going more inland into China. So they're kind of a different level of competition versus the freight bulk that's coming out of New Zealand or the West Coast. So it gives them a little different treatment. So a lot of these we see going up the rivers into -- deeper into inland China. On the Turkey side, we do see demand for pulp ships going to Turkey that we're also supplying out of the East Coast.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

Okay. All right. And then, Dave, just any general comments on the overall kind of Chinese log market as we are partway through the second quarter now?

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

I mean, I think it's been a continuing theme, Mark, of stable -- excuse me, stable demand, but recognize that China instituted a curtailment of the harvest of natural forest that really went into effect fully last year. And so there was a big step shift reduction in supply. And so it exaggerated the impact from the demand and really has benefited all the folks that are exporting logs into China. And so we are benefiting from that really in all 3 of our timber segments right now, the U.S. South, Pacific Northwest and New Zealand. So we remain encouraged by that. The other thing to keep in mind is that while inventories increased in the Chinese New Year this year, which they do every year, and they went over 4 million cubic meters, they've fallen very rapidly due to kind of that combination of stable and strong demand as well as reduced domestic supply. And so we've seen those inventories come down to below a 2-month supply or the demanding below 2-month supply. And so that has translated to some nice stable and modestly rising pricing as we've kind of come through that Chinese New Year period.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

Okay. All right. And then I wondered just going back to this trade issue with Canada. As a major timberland owner, do you have any input into this dispute? Or you've just got to a stand back and let the lumber guys fight this battle?

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

We're not formally part of the coalition. And so based on that, we're sitting on the sidelines and letting the others have a direct seat at the table. And that tends to be, as you suggest, the folks that are producing lumber. We certainly are watching this dynamic, and we're tracking it. And we continue to believe that ultimately this is going to translate to -- the combination of the resolution of the softwood lumber agreement and the mountain pine beetle epidemic working its way through the system is going to ultimately translate to more production of lumber coming from U.S. South and ultimately, a lower market share of the U.S. lumber market that is from Canada. And so we think the U.S. South is in the best position to capitalize on that. And so we watch capacity very closely. And we -- and as Doug said earlier in the call, we've been encouraged by the capacity additions that have been announced within our footprint. And we're going to continue to monitor it. We don't necessarily see this as a fast response, but we think directionally it's moving in our favor.

Mark William Wilde - *BMO Capital Markets Equity Research - Senior Analyst*

Okay. All right. And then finally, Dave, if I could. One of the trade papers recently had an article suggesting some cooling in the Southern timberland markets. I assume you've seen this, and I wondered if you had any thoughts on that.

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

Our view has always been that it really is quality dependent. And I think that you're seeing a mix of quality assets. There is plenty of deal flow right now, but there is a mix of assets. Certainly, at one end of the spectrum, you have the transactions that we recently completed that were very high-quality assets in high-quality markets. There are other assets that are going to be of lower quality. And I think that depending on how you look at the markets and which of those assets you're looking at, it's going to color your view of markets. But I think that we still are seeing strong market dynamics in terms of capital, trying to get into the asset class. And I don't know that we espouse to the markets cooling as much as we do really that being driven by the quality of the assets that are out there.

Operator

Our next question comes from Steve Chercover of Davidson.

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

The first question is just -- I guess, I should get a hearing aid. I heard that the site index is 78 feet. What was the second number that you provided, Dave. This is for the land you acquired.

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

It was 4.7 tons per acre per year as the sustainable harvest level coming from those lands.

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

Great. And then second question, switching gears. I think the New Zealand started to surprise you guys to the upside at the beginning of 2016. And it seems like it's even building on that momentum. So is that sustainable? Is somehow New Zealand benefiting from the strong U.S. dollars the Chinese are going there? Or is it also domestic situation?

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

I think it's a lot of things, Steve. I think that the one -- we have always been fairly bullish on New Zealand just based in part on the underlying productivity of the lands and the access to markets. And I think that what we saw last year were a number of factors that contributed to that. I think the one area that perhaps if you want to put it into the bucket of surprises was the effectiveness of the reduction in domestic harvest in China. This has been something that's been attempted before. It's been widely reported that there was overharvesting for a long period of time. And so it was really the effectiveness of that domestic harvest ban and the impact that it had on the market. And I think that catalyzed the market to some degree last year. And then we had -- we also had the confluence of a very strong domestic New Zealand market. The Auckland market is one of the fastest-growing markets in Asia. And so we're seeing very strong domestic demand. Domestic -- the domestic market has taken market share from the export market in that period of time. So we're now at about 55%, 45% mix of domestic to export. And then you also have a strong and growing market in India. So you had all of those market factors that were taking place at the same time, while you also had low oil prices and an abundance of ships that kept shipping rates low. And then you had strong currency on top of it. So you really had all the planets kind of lined up last year, and we're seeing more of the same this year. We've seen some increase in shipping rates. But generally, we remain pretty bullish and pretty encouraged by what we're seeing out of New Zealand this year.

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

So no regrets as to the increasing ownership of the JV.

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

No. None whatsoever.

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

My last question, again, forgive me if I might have missed it. But in Southern sawtimber, the prices are about as flat as the board. So when do you expect tension in that market that will help elevate prices?

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

I think it's quite variable. I mean, we're -- and in our discussions with investors, we're focusing on the relative build in inventory across the U.S. South, and we continue to believe and see that there is going to be very variable price elasticity going forward. And that in some of our more tensioned wood baskets, we're expressing that price elasticity now. And in other wood baskets that are less tensioned, we're not. And I think it's been to some degree exacerbated by the weather factors and the demand reductions associated with these 2 pulp mill incidents that Doug referenced that I think have exaggerated perhaps some of the effects. The La Nina conditions that have currently translated to a lot of dry weather and abundance of supply as well as the demand reductions, those -- neither of those 2 things are going to be long term in nature. And it's one of the reasons that we're remaining, as Mark talked about earlier, we're taking a fairly nimble approach in terms of how we think about volume, and it's one of the reasons that we deferred some volume late last year, and that's really gets back to what Mark was commenting on as well in terms of maintaining the flexibility going forward for the balance of this year.

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

But overall, you believe your Southern lands are situated in regions that should see tension as housing picks up towards 1.5?

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

Yes, this is Doug. I believe so. We're tracking around 16 million tons of additional capacity announcements that have been announced across our Southern footprint, and about half of that's in the pulp pellets business and about half of that is in lumber. And so as those come into play, we do believe that's going to be positive. Now some of those are 2017, 2018 type things or maybe beyond even further for a pulp mill, but along those lines that's kind of the capacity that we're seeing that's been announced. And Steve, I will just add. I mean, clearly the softwood lumber dispute has been exaggerated the supply-demand imbalance in the South. And you really saw U.S. lumber production flatline over the course of last 2 years with the expiration of managed trade. And so again, I think we're optimistic about the impact that the duties as well as some ultimate resolution of that softwood lumber dispute will have on our markets.

Operator

Our next question comes from Chip Dillon of Vertical Research.

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

First question is, I know we were talking about the strength in New Zealand. Is there any chance that as we think about -- and I know it's early in the year, the 2017 guidance that maybe that range might either be tilted up a little bit? I know you're looking for $52 million to $60 million. It looks like -- I'm sorry, $64 million to $68 million in EBITDA from that area.

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

Yes. Again, we don't -- it's still really early in the year. And so we don't want to get too specific around each of the individual segments, but clearly as you kind of think about the start to the year, I think we're still kind of remaining the most cautious around the South, Northwest and New Zealand, obviously, had strong starts. In real estate, we were light in Q1, but we still feel good about the full year guidance there. And so directionally, that's kind of where we're at. But again, still a little early in the year to update our guidance. But if we see a material move, we'll certainly keep you posted as the year progresses.

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

Okay. And I noticed earlier in the call, you didn't really want to make any changes to the overall either Southern or overall EBITDA ranges. But when you think about -- at least what I read from the offering and from the transaction that you just closed, looks like that annualized EBITDA should be about $13 million of a contribution. And I guess, could you just -- and maybe that's based on getting up to 450,000 incremental tons, which I know is more of a sustainable number. But could you talk about 2 things, the ramp to the $13 million and the $10 million of CAD, when do we expect to get there? Will we see any of it this year? And then maybe secondly, just talk a little bit about how you look at these returns versus the equity issue that I suppose was used to pay for roughly half of the acquisition.

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

Sure. I mean, the -- as Mark touched on earlier, we just literally closed on the last of these transactions a couple of weeks ago. So we're getting our feet wet in terms of deliveries. We're in the process right now of determining how much of that's going to come during 2017. But I think that certainly as we look ahead at 2018 and beyond, we feel like we're going to be at those run rates that you described of $13 million of EBITDA and $10 million of CAD. And then broadly, as it related to the equity issuance, we looked at this very carefully and we didn't take it lightly. And we said in the past that we'd consider issuing equity at the right price for the right opportunity. We do believe that this particular opportunity represented a compelling use of equity capital. We believe that the acquisition is going to ultimately be accretive to our NAV per share over time, well beyond any NAV dilution that we may have realized from the equity issuance. And we employ a fairly rigorous analysis regarding our own internal view of NAV. And we've -- we're constantly weighing capital allocation alternatives such as this on the basis of this NAV tool. And when we're valuing acquisitions, we compare them on an apples-to-apples basis with how we internally value our own assets in terms of both price forecast and discount rate. Ultimately, we concluded that these properties were very attractive assets. They have upside value relative to our purchase price. And so the markets with -- in which these are located are also the strongest 3 markets in the U.S. South. And it kind of gets back to the earlier discussion on the call in terms of being in tensioned markets, and we're always happy to add more assets in tensioned markets and recognize as well that we're the largest player in these markets. And so we know these markets, and we feel that we're uniquely positioned to maximize value from these acquisitions. So we believe it's important to consider the merits of an equity issuance relative to the use of capital and our thinking on the merits of this particular equity raise. We're predicated on the value opportunity we saw in this particular set of acquisitions, and we think as long as we can continue to be disciplined on that front that we can use our currency to generate value accretion over time. And it's worth noting that also that in the last 2 years that we've repurchased 4.2 million shares of our stock at an average price of $23.76. And so in issuing stock at $27.75, we realized about a $4 spread, and we continue to believe that it's important to always maintain the nimbleness and some dry powder as we stand ready to capitalize on any value accretion opportunities that we see available to us, whether it's in the context of acquiring new assets or repurchasing our own shares in the market.

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

Okay. That's very helpful. And one more quick one. As you look out over the '18, '19, '20 period, do you kind of directionally and certainly, it depends on how among other things, Wildlight kind of unfolds. But do you think the $52 million to $60 million kind of EBITDA range, is that likely to be moving more upward, more downward or just kind of choppy around that range? And then maybe lastly, when you talk -- when you think about the 95,000 acres you bought, they sum -- they all seem to be relatively close to I-95. And I know there's some very empty spaces still along the highway. But it doesn't mean that in 5 or 10 years, whether it's warehouses or other types of development could occur, is there some optionality on these 95,000 acres in your mind? You might not have valued it as such when you made your deal, but do you think it's reasonable that if things progress that you could see some HBU potential among these acres?

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

Yes, Chip, this is Mark. I'll take those questions. First of all, on the $50 million and $60 million of EBITDA, I think that's a pretty reasonable expectation of run rate, and we certainly expect some price growth over time that would generate some growth there. But when we talk about our HBU business, we generally talk about it in terms of expecting to sell 1% to 1.5% of our fee land base in the South annually, and that translates into when you kind of just look at the -- how that business has developed over the years. I expect that we're going to sell probably 20,000 to 30,000 acres a year into those HBU markets. And you can kind of see the price premiums. I think the last couple of years, we've averaged kind of $2,500 to $2,750 an acre. So that kind of gives you a sense as to our kind of run rate expectation for that business. And I think it would generally kind of translate into a similar range to what we're forecasting for this year. And so as it relates to the upside potential in the recent acquisitions, it's absolutely something that we see is creating some upside over time. We didn't underwrite it into the -- into our acquisition underwriting. We didn't need to. This was a property that from a timber standpoint really supported the valuation without that. But clearly, these markets, are, again, in that sort of path of growth in the I-95 corridor, and so we do see some upside there over time, keeping in mind that because the timber value here is so high, the sort of hurdle rate to actually sell into that HBU market is going to be materially higher as well.

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

Chip, another thing to think about it is there's a portion of those assets that actually have HBU value from an agricultural conversion. And that's not something that you see very often, but it speaks to when you have site index that's that high and you see surrounding lands that are inactive agriculture, it's suggestive of that. So that's another thing that we'll certainly look at over time. But again, we didn't build any of that into our underwriting.

Operator

Our next question comes from Mark Weintraub of Buckingham.

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

I was hoping to delve a little bit more into the lumber side and the implications on getting more tension into the U.S. South. And in particular, do you have a sense because, obviously, the sawmills are making a lot of money now down in the South. What are the constraints of your customers to producing more? And there is always kind of this concept that you could add shifts and things like that. And while you are seeing some increase in production, maybe it hasn't been quite as fast as what I might have anticipated given the levels of profitability. Do you have a sense from what the constraints are for your customers?

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

Well, I think that one of the things that the lumber business, in particular, has had times in the past where folks have been burned by moving too quickly. And I think that to their credit they are being -- a number of them are being cautious. And you also look at a number of facilities that have been acquired in recent years. And those facilities have undergone quite a bit of capital infusion to improve operations on existing 1 shift basis. And I think that we're likely to see this in increments, where you see first of all the 1-shift operations improve from a productivity standpoint, and then you're going to see increased hours. And you're going to see both of those things before you see the addition of shifts. And I do think there is -- and certainly talking to some of our customers, there's some labor constraints. Sawmills are much more specialized from a labor standpoint now than they were a few decades ago. And so you're dealing with the need to bring in some specialized skill sets in order to add incremental shifts. And so I do think that, that plays a role in moderating the pace at which new capacity can be put in place. But nevertheless, note the numbers that Doug cited earlier in terms of the capacity additions that we are aware of. They're kind of marching forward at a pretty steady drumbeat right now.

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

And do you have a sense that as that profitability has gotten even higher at least in the immediate, that there is a potential for fairly quick supply response? Or anything that's going to happen, it's going to impact the market 12 months, 24 months ahead as opposed to there being flexibility in the system to take advantage of what is increasingly high profitability?

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

I mean, to some extent we're a little agnostic on that. We have been trying to make all of the portfolio moves and asset management moves on our end to be flexible and to retain that flexibility to be able to respond, whether it's short term, as you suggest, or longer term. I think that our own internal view is more moderated that we believe it's not to happen overnight but that when it does happen, we're going to be ready for it.

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

Okay. And then lastly...

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

This is Doug. So I would add -- when I talk with customers, the thing that Dave brought up primarily was around labor. And that is one of the constraining factors that they built -- gear up to a second shift and things like that is finding skilled labor. So that's often one of the first things I hear. So they're realizing that the profitability, but they're also trying to figure out how to staff up and get there. So that is still a concern.

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

Okay, great. And then lastly, obviously you got out of the sawmill business. If there were an acquisition alternative that might include some converting assets, is that something that you wouldn't be interested in or you could be interested in the idea of getting -- of selling that asset? Or does it make it a nonstarter?

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

Well, we generally don't want to comment on M&A. But I'd go back to the tenets of our capital allocation is to be nimble and opportunistic. And so you never want to say never, but I think that we like our -- we certainly like our pure-play timber posture. We think it give us a lot more focus. It's -- as this market and this industry has proven over the decades, it's very hard to manage an integrated operation well.

Operator

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

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

Just had a couple of questions. One on U.S. South log pricing just because you haven't had enough questions on this. But you signaled that price is down in the quarter on mix. And if I look at TimberMart-South data, it's really been down for the last 3 years, maybe flat in some markets. Maybe you could give us an idea of how that's moved around on a regional basis, especially for where you've got timberland located? And then just on the export side, you mentioned that there is premiums in the export market. Just wondered what those premiums are and why they're not showing up in your realizations?

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

Paul, this is Doug. I'll handle that question. So what we've seen in particular over the last 2 or 3 years is a lot of import of plywood from South America. So that's decreased the demand for the large plylog size logs in the South, where primarily our Gulf State regions are -- support that market. So we've seen a reduction in mix of our large plylogs, which carry often a $5 or $10 premium over regular kind of chip and saw type lumber, because they are a much longer log, you grow longer time. And so as you've seen less of that volume, we've actually had more of volume coming on in the Atlantic Coast. And so it's a matter of that geographic mix, where we are seeing premiums. I don't want to say too much about these premiums in the export side, because we predate the market we're in and don't really want to give away too much the secret sauce there, but that helps to offset the weakness in the demand for the large plylog, and that's why things have been relatively flat if we look at that way. So we've been -- lower volumes on the large plylogs and more volumes in kind of the 7-, 8-inch top type wood at a bit higher pricing than historical.

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

Okay. And then, I guess, just taking a look at -- I think, Mark, you made the comment that U.S. production on the lumber side has flatlined over the last couple of years, and I don't know that data that I'm looking at WWP, which shows a 3.4% increase in 2016 or $1.1 billion board feet. And I guess, the question I've got is more around what you're seeing in the U.S. South in terms of lumber capacity additions, because that production was up according to WWP anywhere -- anyways somewhere around 700 million or 4.1% production gain in 2016. Just wondering if you think that's sustainable. Or do you think that accelerates going forward, especially with respect to the trade fall?

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

Yes, Paul. We can compare our notes on data sources, but we've got a slide on our investor deck, basically showing it's been relatively flat in the last couple of years, and I think that's looking at aggregate U.S. lumber production and that's relative to, obviously, a housing market that's continued to improve modestly year-over-year. And so look, there's been a pretty discernible trend in the growth of Canadian lumber imports and I think that that's taken up a lot of incremental demand that's come from housing. And so we do believe that, that -- the expiration of managed trade has impacted the market and that has obviously had a disproportionate impact on the markets in the South in terms of the volume of production. And so we can -- again, we can kind of compare notes on data sources there, but that's what our data is showing.

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

So as far as the lumber production or lumber capacity increases that you're seeing in 2017 and 2018, do you think like -- I guess, I'm trying to understand whether that production you see that accelerating going forward or declining or being stable? Or how do you look at that going forward?

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

Paul, this is Doug, again. Yes, like I mentioned before, we're tracking about 9 million tons of increased capacity for logs across our Southern footprint. And I see that there's a lot of interest right now moving forward with that. So I think it's still moving forward as we go. Of that 9 million tons, around 5 million of it, we have direct exposure to. So these are customers in markets close to our lands that we interact in. And another 4.5 million of that, we're working in that wood basket. So we sell wood and they can make it to those mills, but they're secondary to our standard supply.

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

Okay. And then of that 5 million direct, is that split 50-50 between pulp logs and sawlogs?

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

That's all sawlog demand.

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

That's all sawlog.

Operator

We have 2 more questions in the queue. And the next question comes from George Staphos of Bank of America Merrill Lynch.

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

This is actually John Babcock on the line for George. Just wanted to clarify, so did you say earlier that you expect at some point to sell 25,000 to 30,000 acres into the HBU markets? It just seems like little bit of an uptick from here. And then I was also wondering if that is correct, generally, I mean, when we should expect you guys to get to that run rate.

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

What I said is I think we generally expect to sell 20,000 to 30,000 acres annually. It's going to be in that range. And if you look at the last 5 years, it's typically been in that range. And so I think that -- it's not that we'll get there at some point. That's more or less our run rate volume in that segment.

George Leon Staphos - *BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research*

Okay. So that was all real estate, not necessarily HBUs specifically.

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

Yes, although most of our real estate business, because we exclude large dispositions, we consider the sales that flow through our real estate segment as primarily being HBU.

George Leon Staphos - *BofA Merrill Lynch, Research Division - MD and Co-Sector Head in Equity Research*

Okay. I appreciate that. And then since most of my questions have been answered, the only one I had was just if you could provide your ending share count.

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

Well, it's plus the 5.75 million shares that we just issued. So it's right about 129 million. There'll obviously be in the cover of the Q when it comes out in a couple of days. But it's just going to be the last quarter's ending share count plus the 5.75 million shares that we issued order of magnitude.

Operator

We still have 2 more questions in queue. And the next question comes from Mr. Collin Mings from Raymond James.

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

Great. Just 2 follow-ups for me. First one, I'm just curious, Doug and Dave, how you think about just the availability of logging crews and how that could play into the whole dynamic here of kind of the -- if we do get some more lumber production and some more demand for log, how do you think about some of the benefit flowing to some of those third-party crews versus actually back at the stump given some of the reduction in that workforce over the last several years now?

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

Good question, Collin. What we've seen -- typically the industry because it's working under wet conditions unlike little bit right now, at least in the Atlantic Coast although it's flooding over in the Gulf States is that there's about 20% kind of surplus of logging capacity to overcome the impacts of wet weather and things like that. So right now, it feels like there's still some additional capacity to move things. But as we go forward, if things really do ramp up and get going in 2 or 3 years out and we don't see increasing in log supply, I think it's going to favor those of us who have large land holdings and large volumes because typically, we're able to offer year-round work for the folks, and we believe that's an important component of being a large landowner. So we think we'll be on the right side of that and have access to those crews and capabilities.

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

Okay. And just a follow-up. I know you addressed Mark's question earlier as far as timberland values in the U.S. South. But just curious, especially given that you guys have seemed to have a bias towards some of these off-market deals and some of the stuff that we wouldn't necessarily see packages on or the details out there in public. Just curious, deal volume, not so much just in terms of pricing, but just what is kind of the deal flow coming across the desk right now?

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

I think we've continued to see quite a bit of deal flow. I think that it still is a heavier deal flow in the South and then less so in the Northwest and then even less in New Zealand. But I don't know that we've seen a material change in the gross deal flow.

Operator

And our last question comes from Mr. Mark Weintraub of Buckingham.

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

Just one quick follow-up, too. On that 9 million tons of incremental demand for sawlogs in your Southern wood basket. What's the existing pull on sawlogs in that basket right now?

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

Mark, I don't have that number handy for you right now, so something we'll probably need to get back to you off-line on.

Operator

We're showing no further questions at this time. Now I will turn back the call over to Mr. Mark McHugh.

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

Thanks, everybody, for joining, and feel free to follow up with me if you have any additional questions. Thank you.

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