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RYN - Q4 2018 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 4Q18 sales of $166m and net income attributable to Co. of $2m or $0.02 per share. Expects 2019 net income attributable to Co. to be $60-69m and EPS to be $0.46-0.53.

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PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's Fourth Quarter 2018 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. - Senior VP & CFO*

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

I'd like to remind you that in these presentations, we include forward-looking statements made pursuant to the safe harbor provisions of federal securities laws. Our earnings release and Form 10-K filed with the SEC list some of the factors that may cause actual results to differ materially from the forward-looking statements we may make. They're 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 Dave Nunes, President and CEO. Dave?

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

Thanks, Mark. First, I'll make some high-level comments before turning it back over to Mark to review our consolidated financial results. Then we'll ask Doug Long, our Senior Vice President for Forest Resources, to comment on our U.S. and New Zealand Timber results. And following the review of our Timber segments, Mark will discuss our Real Estate results as well as our outlook for 2019.

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Our fourth quarter results were generally in line with our expectations and capped off a year in which we generated post-spinoff highs in adjusted EBITDA across all 4 of our key operating segments. The quality and diversity of our portfolio, coupled with the tremendous dedication and focus of our employees, allowed us to achieve our prior full year adjusted EBITDA guidance, despite contending with some challenging market conditions.

In the fourth quarter, we generated adjusted EBITDA of $50 million and earnings per share of $0.02. As expected, fourth quarter results were relatively modest as harvest volumes and real estate transaction activity were both heavily frontloaded in the first half of the year. In addition, we elected to defer harvest volume in the South -- in the fourth quarter, both in U.S. South and the Pacific Northwest. Specifically, we deferred 200,000 tons in the U.S. South due to market impacts from Hurricane Michael as well as 50,000 tons in the Pacific Northwest due to deteriorating market conditions stemming from tariffs on log exports to China.

For the full year, we generated adjusted EBITDA of $338 million and earnings per share of $0.79. In Southern Timber, adjusted EBITDA increased 12% over the prior year, driven by higher volumes and stronger nontimber income. In Pacific Northwest Timber, we pulled forward harvest volume due to strong pricing in the first half of the year, which allowed us to register a 24% year-over-year increase in adjusted EBITDA, despite a drop in pricing in the fourth quarter due to the China trade dispute.

In New Zealand Timber, adjusted EBITDA increased 7% over the prior year as we continue to see strong demand from China, particularly as U.S. log exports declined following the implementation of tariffs in August. Lastly, in Real Estate, we had an extraordinarily strong year, driven by 2 significant transactions in Louisiana and New Zealand as well as significant activity in our Wildlight project. Overall, Real Estate adjusted EBITDA of $123 million was up 29% over the prior year, driven by roughly 34,000 acres sold at an average price of over $4,100 per acre.

As we've discussed in the past, our Real Estate segment is focused on opportunistically unlocking the long-term value of our HBU portfolio, and we saw some great opportunities in 2018 that we were fortunate to capitalize on.

With that, let me turn it back over to Mark for a detailed review of our fourth quarter 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 $166 million, while operating income was $15 million and net income attributable to Rayonier was $2 million or $0.02 per share. Pro forma EPS was also $0.02 per share as we had no pro forma items in the quarter.

Fourth quarter adjusted EBITDA of $50 million was well below the prior year quarter, primarily due to lower results in our Pacific Northwest Timber, New Zealand Timber and Real Estate segments. As Dave noted, we had a disproportionately strong first half, so we anticipated lower adjusted EBITDA and EPS to finish the year, which was further compounded by price declines in the Pacific Northwest and the deferral of 250,000 tons of harvest across the company.

On the bottom of Page 5, we provide an overview of our capital resources and liquidity at year-end as well as a comparison to the prior year. Our cash available for distribution or CAD for the year was $240 million, which represents an increase of $51 million or 27% versus the prior year CAD. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on Page 8 on the financial supplement.

We closed the year with $148 million of cash and roughly $975 million of debt. Our net debt of $827 million represented 19% of our enterprise value based on our closing stock price at year-end. Note that these figures exclude $7.5 million of cash proceeds from Timberland and HBU sales that are currently held by LKE intermediaries and, therefore, are classified as restricted cash.

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

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Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Thanks, Mark. Good morning. Let's start on Page 9 with our Southern Timber segment. Adjusted EBITDA in the fourth quarter of $21 million was $2 million unfavorable to the prior quarter and $2 million favorable to the prior year quarter.

Fourth quarter harvest volume of approximately 1.3 million tons was in line with the prior quarter and 108,000 tons higher than the prior year quarter. Although full year harvest volumes ended up below our initial guidance, overall production was 400,000 tons higher than the 2017, despite the deferral of 200,000 tons due to the market impacts associated with Hurricane Michael.

Fourth quarter pine pulpwood stumpage prices of $14.82 per ton were 11% and 2% unfavorable compared to the prior quarter and prior year quarter, respectively. The drop in price was largely due to geographic mix and an increased proportion of volume harvested from lower-priced regions.

Pine sawtimber stumpage prices of $24.03 per ton were 6% and 2% unfavorable to the prior quarter and prior year quarter, respectively. The decline in price compared to the prior quarter was, again, due to an increased proportion of volume harvested from our lower-priced region. The decline compared to the prior year quarter was less pronounced but still influenced by a geographic shift of volume to our lower-priced regions, combined with the reduction in price on export quality logs due to the Chinese tariffs.

Hardwood prices of $12.62 per ton were 5% unfavorable to the prior quarter and 9% favorable compared to the prior year quarter. Hardwood markets are very localized and product specific, so changes in price tend to be driven by both product and geographic mix. Overall, our Southern Timber segment delivered full year adjusted EBITDA of $103 million, 12% greater than prior year, driven primarily by an 8% increase in volume. Also contributing was our nontimber revenue, which increased by $4 million compared to the prior year, due primarily to several pipeline easements across the region.

Now moving to Pacific Northwest Timber segment on Page 10. Adjusted EBITDA of $2 million was $8 million and $9 million unfavorable to the prior quarter and prior year quarter, respectively. Fourth quarter harvest volume of 242,000 tons was 70,000 tons and 80,000 tons unfavorable to the prior quarter and prior year quarter, respectively.

With China outlining plans for tariffs and a falling domestic lumber market coming out of the third quarter, we decided to defer uncommitted volume into future years, while still meeting production and customer commitments. Delivered sawtimber prices of $81.14 per ton were 21% and 15% unfavorable to the prior quarter and prior year quarter, respectively. The sharp decline in sawtimber prices was due to the implementation and continued threat of escalating Chinese tariffs, combined with the decline in domestic lumber prices. Due to the almost historic prices we were achieving for white woods prior to the tariffs, we were targeting these stands as we moved in the second half of 2018. Thus, our species mix was heavier to white woods, which more negatively impacted by the China tariffs relative to Doug fir.

Delivered pulpwood prices of $47.36 per ton were 3% unfavorable to the prior quarter and 7% favorable compared to the prior year quarter. The decrease in pulpwood prices compared to the prior quarter was driven by a geographic mix of sales, while the increase in pulpwood prices compared to the prior year quarter was due to species mix, coupled with reduced chip residuals from sawmills. Overall, our Pacific Northwest Timber segment deliver full year adjusted EBITDA of $41 million. $8 million or 24% favorable to the prior year. The full year increase in adjusted EBITDA was driven by a 5% increase in harvest volume and a 14% increase in weighted-average pricing.

Page 11 shows results and key operating metrics for our New Zealand Timber segment. The New Zealand Timber segment capped off a great year with a solid fourth quarter. Adjusted EBITDA in the quarter of $19 million, was $5 million and $4 million unfavorable compared to the prior quarter and prior year quarter, respectively. The variance compared to prior quarter was primarily due to a 10% reduction in volumes, coupled with negative foreign exchange impacts. The reduction of volume was primarily due to the timing of export shipments as well as production interruptions due to weather. Compared to the prior year quarter, adjusted EBITDA was unfavorable due to export timing, higher port and freight costs and unfavorable foreign exchange impacts.

Export sawtimber prices of $114.89 per ton were flat compared to the prior quarter and decreased 1% compared to the prior year quarter. Demand remained strong in China resulting in overall stable pricing. Domestic sawtimber prices of $79.54 per ton in U.S. dollar terms were 1% and 4%

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unfavorable to the prior quarter and prior year quarter, respectively, primarily due to changes in the New Zealand/U.S. exchange rate as domestic pricing in NZ$ was slightly up year-over-year.

Overall, our New Zealand Timber segment delivered full year adjusted EBITDA of $91 million, an increase of $6 million or 7% compared to the prior year. In our Trading segment, fourth quarter adjusted EBITDA of $300,000 approximates the prior quarter and decreased $900,000 compared to the prior year quarter due to reduction in sales volume.

I'll now turn it back over to Mark to cover our Real Estate results. Mark?

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

Thanks, Doug. Following the realignment of our Real Estate organizational structure that we discussed last quarter, I'll be addressing overall Real Estate results on earnings calls going forward. But we have both Chris Corr and Rhett Rogers on hand to address any specific questions following our prepared remarks.

As highlighted on Page 12, Real Estate segment fourth quarter sales totaled $17 million on roughly 2,250 acres sold at an average price of just over $7,400 per acre. Adjusted EBITDA for the quarter was $12 million. Fourth quarter improved development sales totaled $5 million, which were comprised of a mix of commercial and residential properties in Wildlight totaling 31 acres at an average price of $148,000 per acre. The commercial sales included partials for private school, a retail building and a hotel. Fourth quarter closings also included 20 single-family lots. We continue to be pleased with the overall level of interest and activity in Wildlight and are looking forward to the start of the next phase of residential lots in 2019.

In the rural category, sales totaled $12 million on approximately 2,100 acres sold at an average price of $5,575 per acre. Market interest in our rural properties remains positive with per acre pricing stronger than the prior quarter and the prior year quarter. Sales in the nonstrategic and Timberlands category were relatively light at just under $200,000, which included a post-closing harvest adjustment with respect to the prior quarter New Zealand land sale.

Overall, our Real Estate segment delivered extraordinarily strong financial results in 2018, while we continue to maintain discipline in our land sales program by focusing on properties with meaningful premiums to Timberland value. Real Estate sales for the year totaled $139 million on approximately 34,000 acres sold at a weighted average price per acre of over $4,100. This compares to 2017 sales of $112 million, excluding Large Dispositions on approximately 33,000 acres sold at a weighted average price of $3,360 per acre.

Now moving on to guidance for the year. Page 14 shows our financial guidance by segment for 2019 and Schedule G of our earnings release provides a reconciliation of our adjusted EBITDA guidance to net income attributable to Rayonier and EPS. For full year 2019, we expect total adjusted EBITDA of $270 million to $290 million, net income attributable to Rayonier of $60 million to $69 million and EPS of $0.46 to $0.53. The projected decline in consolidated financial results versus 2018 is primarily driven by a much lower expected contribution from the Real Estate segment following an extraordinarily strong year in 2018. We expect that our total Timber segments adjusted EBITDA will be slightly lower versus 2018, with gains on our Southern Timber segment offset by lower adjusted EBITDA in our Pacific Northwest and New Zealand Timber segments.

While the U.S. South continues to experience a relatively slow recovery in sawlog prices, we still believe longer-term trends remain positive, with new mill capacity phasing in over the next few years. In 2019, we expect some modest price improvements in certain regional markets driven by stronger overall demand. Further, we anticipate full year harvest volumes in our Southern Timber segment of 6.2 million to 6.3 million tons as we recapture some volume deferred in 2018. Overall, we expect our Southern Timber segment will contribute 2019 adjusted EBITDA of $111 million to $115 million.

In our Pacific Northwest segment, we expect to achieve harvest volumes of 1.3 million to 1.4 million tons, but anticipate meaningfully lower average sawtimber pricing versus 2018. We've seen prices rebound modestly following the drop in Q4, but prices still remain at levels well below 2018 averages. Tariffs on log exports to China as well as the prospect of higher tariffs if the trade conflict is not resolved have weighed heavily on export demand. Overall, we currently anticipate 2019 adjusted EBITDA in the Pacific Northwest Timber segment of $30 million to $34 million. However, the terms and timing of any prospective trade deal with China could impact results positively or negatively relative to our current forecast.

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In our New Zealand Timber segment, we expect harvest volumes of 2.7 million to 2.8 million tons as well as continued strong demand and pricing as customers seek supply from nontariff countries. However, we expect that these dynamics will be offset by increased logging and export freight costs, particularly as a requirement for low sulfur fuels for ocean freight carriers are phased in beginning later this year. Overall, we expect 2019 adjusted EBITDA in the New Zealand Timber segment of $83 million to $89 million.

In our Real Estate segment, we continue to focus on unlocking the long-term value of our HBU development and rural property portfolio. Results in this segment will invariably be lumpy as we pursue transactions opportunistically. However, a normalized pace of real estate activity has historically averaged around 1.5% of our Southern land base annually. 2018 was well above this level, largely driven by a 14,500 acres sale in Louisiana for $43 million, as well as a 5,000 acre sale in New Zealand for $28 million. As noted earlier, we expect more normalized transaction activity in 2019, which we expect will contribute full year adjusted EBITDA of $67 million to $72 million.

Details on other elements of our financial guidance, including CapEx, DD&A, noncash basis of lands sold, interest expense, taxes and minority interests are provided on Page 14 of the financial supplement and Schedule G of the earnings release.

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

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

Thanks, Mark. Over the past 4 years, following the spinoff of the Performance Fibers business, we've been keenly focused on preparing Rayonier for a bright and resilient future. Our mission is to provide industry-leading returns, while being a responsible steward of our lands.

Critical to this mission are the countless contributions made by our people. We work hard internally to promote a culture of ownership and accountability, encouraging our people to always be looking for ways to deliver incremental value. I believe this culture is ultimately reflected in our financial results. While 2018 was not without challenges, we managed to finish the year with a post-spinoff record level of full year adjusted EBITDA across each of our 4 key operating segments. I'm very proud of this accomplishment and the hard work and dedication of our people that went into achieving it.

Over the past 4 years, we've also worked hard to improve our portfolio. In 2015, we recapitalized our New Zealand joint venture and increased our ownership interest from 65% to 77%. In 2016, we expanded our Pacific Northwest footprint into Oregon with a $263 million acquisition of 61,000 acres in the region. In 2017, we increased our exposure to the strongest markets in the U.S. South with a $214 million acquisition comprised of 95,000 acres in coastal Florida, Georgia and South Carolina.

Along the way, we also executed $303 million of Large Dispositions in an effort to redeploy capital into markets that we believe have stronger long-term prospects. In 2018, we were significantly less active in the portfolio management front. While we evaluated a large -- a number of large transactions and closed on several small bolt-on acquisitions, we maintain discipline around our investment criteria and, ultimately, did not find any larger opportunities that we believed would add long-term value for our shareholders. And we're okay with this. We want to grow, but we want to grow judiciously, and we want to grow in a manner that will be accretive to our long-term cash flow and net asset value.

And as we've discussed in the past, we'll have and will continue to be nimble in allocating our capital with a view towards building long-term value per share. We're in the midst of some challenging and uncertain market conditions. Rising interest rates and construction costs have impeded the pace of the housing recovery. Tariffs on log exports into China have reduced market optionality in the U.S. South and have significantly impacted demand and pricing in the Pacific Northwest. And labor availability continues to impact our business in a variety of ways, both in the U.S. and New Zealand. Notwithstanding these headwinds, we believe that Rayonier is very well positioned based on the strength of our balance sheet, the construction of our portfolio and, most importantly, the experience and determination of our people.

In summary, we continue to actively seek out ways to improve both our organization and our portfolio. Our capital allocation strategy and operational philosophy are both designed to be nimble, flexible and opportunistic. And we'll continue to shift our priorities, as needed, to capitalize on the best available opportunities to maximize long-term value for our shareholders.

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This concludes our prepared remarks. We'll now turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Ketan Mamtora with BMO Capital Markets.

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

First question. Can you talk a little more about recent trends in export log demand and pricing out of the Pacific Northwest?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Sure. This is Doug. As we talked about a little bit in the prepared remarks, we've seen a lot of kind of starts and stops to the export market come out of Pacific Northwest, and that's been around the original announcement that there's potential for tariff increases to 25% on January 1. So we saw a lot of people trying to get wood sent out before December 1, so that they could get the logs delivered before that potential tariff went in. Then that tariff was subsequently moved back to a March 1 deadline, so we saw a renewed flourish of energy to try to get logs and boats back out again. So I'd describe it as very much dynamic at this point in time, and the traders don't want to be caught with logs on the water that could be hit with an additional tariff. So we see kind of fits and starts. When they realize they have time to acquire a bunch of logs, they'll work towards that to acquire logs and then get the boat out, but they are not -- most of them are not prepared to have a lot of logs on the water. So we've seen about a 40% reduction in the total number of shipments over the last 4 months.

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

And adding to that, Ketan, is the fact that you now have the Chinese New Year slowdown taking effect in China. And so, we saw inventory levels reach pretty low levels relative to the last number of years. We ended the year with the lowest level of inventory since 2013, and our January levels are the lowest since 2014. So in an overall inventory sense, we're generally at a pretty healthy level right now. In China at about 3.5 million tons. We expect that to grow during this Chinese New Year shut down. And then the key will really be how things emerge after that. We feel that there is going to be a lag time in the ability of the market to respond to any lifting or reduction of tariffs in the Northwest. And so, we don't see a lot of ability to change that really during the first half of this year and expect that most of that movement will really be more driven in second half of flows.

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

That's very helpful color. And then turning to New Zealand, can you give us an update on the status of your JV partner in New Zealand?

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

Yes Ketan, I can take that. Phaunos has now -- the ownership of Phaunos has now changed over and Stafford has assumed control of Phaunos. So effectively, they are now leading the Phaunos organization, and they are a JV partner.

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

Got it. Okay. And then, final question before I turn over. In terms of capital allocation, your balance sheet is in very good shape. So just you talked about the fact that you want to be nimble and you will look at different opportunities. But if you can provide a little more color on sort of how you're thinking about it right now and tie into how your M&A pipeline looks right now? And what interest you may have in Pacific Northwest, U.S. South and New Zealand and kind of you know your preferences? And if you would have appetite for larger deals if the opportunity presents?

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

Yes. I think, generally, as you pointed out, we are sitting in a pretty attractive position in terms of the capital that we have, the ability of that capital to be deployed. As we've organically delevered over the last few years, we have about a turn and a half of available debt capacity for the right deal. And so, we do feel like we have flexibility to look at both small and large deals. We've generally been open and are actively -- and have been actively looking across all 3 of our geographies over the past year and continue to be. This generally tends to be a slow time in the year. We tend to see more pickup in activity as we enter into the second quarter. But we're actively looking at a number of things right now. Last year, I think, one of the things that we're pleased with is the vast majority of the deals that we did last year were negotiated transactions. And so we're not just sitting around waiting for properties to come on the market. We're pursuing ones that make sense for us, and we felt like we had really nice fit with a number of the bolt-on transactions that we did this last year. And we're going to continue to be patient and look for the right opportunities. We have a view that you've got to buy it at the right price to make sense, and we're not just going to grow for growth's sake, but we're going to grow where it make sense and where we take it can be additive from a long-term standpoint.

Operator

Our next question is from Collin Mings with Raymond James.

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

To start, Mark, just in the prepared remarks, Dave referenced the harvest deferrals in 4Q. As we look at the volume guidance for the South in 2019, how much of the year-over-year increase is kind of just timing related? And maybe just in that context, can you just remind us of how you think about the sustainable yield in the South? And how that compares to 2019 volume guidance?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Sure. I'll start with that. The sustainable harvest that we publish is based on kind of the biological potential of our asset. And our annual harvest volumes are guided by the number, but we also take in account a bottom-up approach from our Timber marketing teams in the field to provide information on demand and what level of supply they believe would negatively impact kind of the market prices. So as you can see, this bottom-up approach this year is slightly less than our biological calculation, and that was when took into consideration Hurricane Michael and the salvage operations. And so, as we mentioned, we did defer around 200,000 tons. If we see spot opportunity, the capture market prices that exceed our expectations in the future, we have flexibility to bring the harvest volume back online. And with the kind of sawmill capacity that we see that's been announced in our operating area, we think that the low patience could be rewarded. So when you look at -- I think to finish your question there, we have deferred that 200,000 tons and moved it into 2019, but the rest of the volume increase is primarily really around our sustainable harvest and expected...

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

So we should think about the sustainable harvest being called the 6 million to 6.1 million ton range and, again, about 200,000, again, has shifted from what would've been '18 into '19?

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

Yes. Related sustainable yield disclosure in the U.S. South is 5.9 million to 6.3 million tons. And so if you kind of look at next year as being slightly elevated with the deferral of harvest volume, we're still right in that range.

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

Okay. That's helpful. And then, I guess, for Dave or Rhett, just maybe can you guys expand on the acquisitions that you guys did complete during the fourth quarter?

W. Rhett Rogers - *Rayonier Inc. - VP of Portfolio Management*

Hey, Collin, this is Rhett. We only acquired 1 property in the fourth quarter. It was in Texas, about 3,300 acres from a private land owner for about $7.8 million. It was a well-thought property with an average plantation age of 27 years and about 85% plantable. So really high quality property. That was the only acquisition in the fourth quarter.

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

And then, just going back, Doug, just one other question, and then I'll turn it over. Just as we think about the U.S. South and pricing dynamics there, you guys have gone through a lot over the last couple of years talking about the importance of different markets and different wood baskets and kind of the pricing differential between different regions. So maybe just can you update us as we start this year on kind of that dynamic in terms of maybe some of the gaps you're seeing of maybe some better markets, some weaker markets and just how the shift in the economics of log exports out of the U.S. South has kind of played into those dynamics?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Sure. So based on age classes, we continue to see shift in our harvest more heavily to the Gulf States, which we discussed back in 2018. And the geographic composition of our harvests will be roughly 40% the Gulf States in 2019. And this is significant because the average stumpage prices in the Gulf States region are $5 to $7 less per ton than the Atlantic coast. And that's magnified by large volumes in Arkansas as we work through expiring timber deals in that state. So similar to last year, the Arkansas timber retails will have negative impact on our average pricing, but we still believe that our full year pricing will be similar to 2018. On a year-over-year basis, we've seen average pine price increases in the Atlantic coast wood basins, but they've been more muted due to the tariffs, to answer your question there. And they've still been around 3% increase though, so it's still good. Pleasingly, we started to see some additional price tension in Georgia where new sawmill capacity is going to come online and exports have consumed kind of the marginal volumes resulting in roughly a 10% increase in average pricing. As we move West to those Gulf States I mentioned, pricing has been more mixed with gains in pulpwood of about 7%, but decreases in sawtimber around 5%. So you can see it's kind of a tale of difference as you go across those regions based on the inventory buildups and things like that.

Operator

Our next question is from Anthony Pettinari with Citi.

Randy Devin Toth - *Citigroup Inc, Research Division - Associate*

This is actually Randy Toth sitting in for Anthony. Looking at the 2019 full year guide, it looks like there is an expectation of lower EBITDA per ton from the Pac Northwest as well as New Zealand. Can you just talk about what level of pricing is baked into the full year guidance?

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

Yes. We gave some directional indication of pricing in the guidance estimate. So to the extent that the EBITDA per ton is lower in those 2 regions, obviously, the Pacific Northwest is heavily driven by price. Prices were down materially in Q4. And as we sit here today, they remain well below 2018 averages. And so, I'd say that that's largely price driven. In New Zealand, I'd say, it's more cost driven. We've seen some increases. We're forecasting some increases in both logging costs and shipping costs in 2019. And the shipping costs is largely related to the phase-in of the low sulfur fuel requirements for ocean freight carriers that we expect to start to take effect -- they take effect in 2020, but we expect that phase-in to occur later in the year.

Randy Devin Toth - *Citigroup Inc, Research Division - Associate*

Okay, that's helpful. And then, lumber futures have been up pretty meaningfully thus far in 2019. Can you just comment on how overall demand from sawmills in the U.S. South has been thus far?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Sure, this is Doug again. Yes. We've seen strong demand for logs in U.S. South in particular, but then we've also started to see a pickup in Pacific Northwest too. So we think that we're sitting in a good spot where inventories have kind of worked their way out in the Pacific Northwest as people slowed down deliveries in December and January. And so, both in the Northwest and the South, we're seeing increased demand for sawlogs and very much tied the influence into increase in lumber futures.

Operator

Our next question is from Steve Chercover with Davidson.

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

First question is on New Zealand. I understand how the U.S./China trade dispute impacts the yuan, but wouldn't that prompt China to seek more wood away from the U.S.? And so, is the decline that you saw in Q4 just a transitory event, and it'll be better going forward?

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

There's a few things going on in that, Steve. You have to recognize that the Chinese are, absolutely, doing that, and we're seeing sort of record levels of shipments coming out of New Zealand as a result. But that has led to quite a bit of congestion in the ports and cost inflation from a logging side. So you're seeing that kind of come through on the cost side of the equation. And then the other thing to keep in mind is that logs sold out of New Zealand into China are sold on a U.S. dollar basis. And so, as we've seen devaluation of the yuan, that has had an impact on the affordability of some of that volume coming out of New Zealand. So there's some puts and takes there, but there's definitely been more demand.

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

And I'd add to that. I wouldn't read too much into the quarter-over-quarter decline in Q4. I mean, pricing was very stable Q3 to Q4. It's really more driven by volume, and volume is just subject to a lot of different things, including weather and just the timing of export freight vessels.

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

Was very attractive.

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Yes. Just clarifying on that. There was an export vessel that was due to leave in December, but to Dave's points, due to congestion at the port it didn't get out till couple first days in January. So that impacted our volumes for the year.

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

Okay. And on a related topic, given what's going on with China, is 25% still a pretty good number for Pacific Northwest export volumes? And how much is going to China?

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

Well, it's a hard one to call. I mean, the effective result of this threat of a higher tariff coming into 2019, as Doug described earlier, has essentially resulted in people stopping a lot of the activity because they don't want to be stuck with volume that's in transit and subject to a higher tariff. And so, I think, there's been a little bit of a waiting game. And this takes -- it takes a, while to both build up the pipeline and get volume there. So I think people are watching this fairly keenly. And as I said earlier, there will likely be a lag effect once we get a little more clarity on this, whether the tariff goes up, stays where it is or goes away completely.

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

That might go in fits and starts depending on the window. Okay. And my last question is switching gears on to Wildlight. And I want to just confirm that your investment remains limited to horizontal infrastructure. And then, if we think of it -- Wildlight as 261 acres, you've got 25,000 acres in a 5-mile radius. Should we think that you've got like 100 Wildlights ahead of you?

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

100 Wildlights would probably be well over 100 years. But look, our thesis on Wildlight has always been, if we own these 260 acres in this geography and that was all we owned, we wouldn't be doing this. We don't aspire to be real estate developers. We just own such as a large landmass in this area. That our ability to catalyze development in this region and let that enhance the value of the surrounding land is a pretty meaningful value opportunity for us. Wildlight in and of itself is a 10-year project with relatively modest cash flow. And so, again, our -- the value proposition for us in this project has always been to catalyze the value enhancement in the region.

Operator

(Operator Instructions) Our next question is from John Babcock with Bank of America.

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

Just if you could start out talking about what you have baked into your 2019 outlook from U.S./China trade relations that would be helpful.

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

Yes. I'd take that. I mean I wouldn't say that there is something explicit baked in. I mean, we are assuming that something occurs during the course of the year. Either there is a resolution of the tariff at the current level or tariffs go away or tariffs club. I don't want to get to kind of how exactly we're handicapping that. Suffice it to say this thing is kind of going in fits and starts right now. And part of the promise is just really the uncertainty around. I think if we stabilized at a 5% to 10% tariff level in the Pacific Northwest, I think, you'd probably see export activity resume in a pretty healthy level. If the tariff went up to 25%, I think, there's probably some downside risk for anybody exporting logs out of -- well, there is downside risk for anybody exporting logs out of the Pacific Northwest. And it goes away. I think you'd see a pretty meaningful pickup in export demand. And so, we're really trying to take a pretty middle of the fairway view that right now, recognizing that we have no real insight as to how that plays out.

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

Okay. That's helpful. And then, next just on capital spending it looks like that's up a little bit in 2019. What's driving that?

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

I believe that's just sort of the timing of planting. I believe we ended up a little bit below in 2018 relative to our initial guidance. And so, sometimes just weather events will kind of shift capital on either side of year end.

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

We had a lot of wet weather that delayed planting that probably is tweaking that a little bit.

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

That's correct. We've -- actually, 2 years in a row now, we've had a kind of wet Q4 going into the year. So we're behind a couple thousand acres of planting that we're working on getting established. So it's around timing of planting.

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

Got you. And then just last question before I turn it over. Just some of the commentary earlier, it sounded like, at least on evaluation standpoint, maybe that Dave gotten a little extended. Would I be kind of overreaching in saying that or generally what are you seeing on Timberland valuations at this point?

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

Timberland valuations have been remarkably stable. Again, I think, you always see noise in quarter-to-quarter results. And obviously, we're seeing a lot of noise in the Pacific Northwest right now around the China trade dispute. But I would say Timberland values have been pretty stable over the last several years and probably trending upward.

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

Yes. I think the other thing to keep in mind, John, is that you're dealing with variable quality across your regions. And so, last year, we had 2 very large transactions in the U.S. South that were subject to some supply agreements that brought values down. And so, you've got to take into account the mix -- the quality mix of properties that are being transacted.

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Operator

Our next question is from Paul Quinn with RBC Capital Markets.

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

A question just on product mix and especially what we can see in maybe 2019 and maybe out 5 years. So if I look at compare '17, '18 in each of the regions and each of the buckets between pulpwood and sawtimber, it seems relatively stable. So I just want to know if that holds true for '19? And then, what that shift would be by region if we looked out 5 or 10 years?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Sure. Yes. You're correct. We -- basically, '19 will see some slight improvements on sawtimber, and that's results of our thinning programs we started 7 to 8 years ago. But it's going to be still fairly stable. It's not a drastic change. But over the next 4 to 5 years, we will see that shift in the South, in particular, go heavier to sawtimber, which works well as we see more of the sawmills come online. So it's growing, but it's growing kind of slowly in a couple percent a year type of thing.

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

So if I looked at pulpwood sales in -- pulpwood volume in '18 was 62.9% of the total. What am I looking at in 5 years? Is that falling to 50%?

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

Yes. We discussed that generally trending towards 50% over the course of the next 5, 6 years.

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

That's correct.

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

And it's been as high as 70%, so it's sort of starting in that process.

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

Okay. That's helpful. And then, just looking at the nontimber sales and specifically in the U.S. South and New Zealand, I suspect the stuff in the U.S. South is -- some of it's -- at least some of it's recreational stuff, but maybe you could give us some color on that. And then why the big jump in New Zealand?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

Yes. I'll be happy to answer that. So in 2018, we did have nice growth in our -- recreation wise, as you mentioned. But the major beat there was on some pipeline easements that we had across our land base away from Florida to Texas. And so that was the major difference that we had kind of year-over-year with that. And then in New Zealand, carbon credit sales were the primary driver that we had in our nontimber income beat in New Zealand year-over-year.

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

Okay. So then, I guess, a follow-up, how repeatable is carbon credits in New Zealand and pipeline investments in the U.S. South?

Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

So the carbon credits, we have a nice, I guess, volume of those to sell as we fit as we move forward. So that's something that we have. That wasn't a one-shot thing. That's something we have in our back pocket. So that's repeatable. Pipelines, there's something that we can't create ourselves. They obviously happen, but with a 2 point some land acres the land base. We often see them. And so, it's built into our guidance for this year also. So we see something that's sustainable year-over-year. We see pipeline volume just last year was outsized.

Operator

Our next question is from Ketan Mamtora with BMO Capital Markets.

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

I'm just curious if you all are seeing any signs of pullback in sawmill investments in the U.S. South with the sharp drop in lumber pricing we saw in the back half of last year?

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

I mean, we're not seeing explicit pullback. I think that you're facing -- and our sawmill customers are facing general labor shortage issues that are slowing down the pace of some of these projects. And so, I think that you have both the combination of that and just generally when you have a greenfield mill, the startup tends to be gradual and not -- you're not getting up to full capacity right away. And we have always sort of thought about that as it ramped up increase in production. And I think we still kind of see it that way.

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

And I'd just add to that, Ketan. I mean the irony of lumber prices versus timber prices, keep in mind, when lumber prices were really high, I think, 2 things happens. A, that stimulates imports of lumber, which isn't necessarily good for North American manufacturing -- well, it's not necessarily good for the underlying demand for timber in the U.S. And then, also, I think, it's extended the life of BC mills. And so, as lumber prices have come up, we've seen the import slowdown and we've seen some acceleration of BC shutdowns. Net-net, the U.S. South is the most advantageous place to manufacture lumber. And the price of lumber doesn't tend to impact underlying demand that much. At the end of the day, it's not a huge component of the price of a house, which is a biggest marginal driver of demand. And so we think even with some volatility in lumber prices, we're going to continue to see capacity and volume and production shift to the U.S. South over time.

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

That's very helpful. And one last question. How much flex capacity do you have in New Zealand to ramp up harvest? This uncertainty continues in the Pacific Northwest regarding tariffs. Do you have much headroom in the short term at least to flex capacity?

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Douglas M. Long - *Rayonier Inc. - SVP of Forest Resources*

I would say, there's not a lot of room. It's something like I mentioned before. We're looking at the biological sustainable harvest. I mean there's some room, but the right of it is, is we've been harvesting at sustainable level in New Zealand for several year -- well, for a long time. And so, to flex up, to really make a surge, I don't think that's really an option. We get option and we have participated actively in acquiring stumpage blocks and buying other wood and then trading that. So that's been an area that we have around the margin to add value. If we were to see that, that would be something that we're very active currently, but could be more active there.

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

Yes, and I'd also say, Ketan, that the New Zealand is very constrained from a harvest manpower standpoint. And so, that's been a big constraint on the ability to capitalize on some of these markets. And we're pretty aggressive in terms of how we approach that to make sure that we have crews available when we need them.

Operator

At this time, I'm showing no further questions.

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

All right. Well, this is Mark McHugh. I'd like to thank everybody for joining and please contact me with any follow-up questions. Thank you.

Operator

Thank you for participating in today's conference. All lines may disconnect at this time.

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