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RYN - Q4 2014 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 4Q14 sales of $147m and net income of $9m or $0.07 per share.

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PRESENTATION

Operator

Welcome and thank you for joining Rayonier's fourth-quarter 2014 teleconference call. At this time, all participants are in a listen-only mode.

(Operator Instructions)

Today's conference is being recorded. If you have any objections, you may disconnect at this time. Now I'd turn the meeting over to Mr. Mark McHugh, Senior Vice President and CFO. Sir, you may begin.

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

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

I would like to remind you that in these presentations, we include forward-looking statements made pursuant to the Safe Harbor provisions of Federal Securities Laws. Our earnings release and Form 10-KA 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 1 of our financial supplement.

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

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

Thanks, Mark, and before I begin, I'd just like to welcome Mark to our team. Mark's been here a couple months, and it's great to have him as part of the Rayonier team and great for you all to get introduced to him in his new capacity.

So first, regarding the fourth-quarter and full-year results, I'll make a few overall comments before turning it back over to Mark to review our financial results, and then we'll ask Doug Long, Vice President of US Operations, to comment on our US timber results. I'll then discuss New Zealand timber results followed by the review of our timber results segment. Chris Corr, our Senior Vice President for Real Estate, will discuss our real estate result.

One of the changes that you'll see in our reporting this quarter is that we've realigned our reportable segment. The new segments reflect the way that our senior management team evaluates the operating performance of our business. With our narrower focus on timber and real estate following the spinoff of the performance fibers business and with our new management team in place, we recently completed an evaluation of our segment reporting.

In determining our reportable segments, we considered the economic characteristics of each business unit and how we internally evaluate business performance and make capital allocation decisions. The outcome of that evaluation is that we have disaggregated our former forest resources segment into three new segments: Southern timber, Pacific Northwest timber, and New Zealand timber.

Our real estate segment remains the same, except we will now provide more detailed categories on sales. We previously reported real estate sales in three categories: development, rural, and non-strategic.

We now separate development into improved development, for sales of properties where Rayonier has invested capital and infrastructure to add value and marketability; and unimproved development, for sales of properties designated for development but for which Rayonier has not invested any material improvements. We expect that this new, improved development category will provide more information about our progress over time in generating returns from our real estate development projects.

In addition, we have changed the definitions of our rural category and former non-strategic category. We are taking the conservation-related sales out of rural and leaving rural recreation and rural residential in this category. The non-strategic category is now called non-strategic/timberland, and this category includes three types of sales: sales of timberland that we have deemed to be non-strategic within our portfolio, sales of properties for conservation purpose, and periodic sales of core timberlands where we receive offers at attractive prices relative to our perceived holding value.

Our fifth and final segment is trading, and this segment includes our log trading activities in New Zealand and Australia. This business complements our New Zealand timber operations by providing log trading services to third-party timberland owners and adding scale and related cost benefit to our export operations, as well as additional market intelligence. It also utilizes our timber market's expertise to provide a modest contribution to earnings and minimal capital invested.

You will also notice that starting this quarter and consistent with our commitment to transparency, we are providing significantly more details regarding segment results in our supplemental materials.

Now let's switch to our results. Overall, we finished the quarter generally in line with our earlier expectation. We continued to see strong demand and price improvements in Southern timber, but saw price decline in Pacific Northwest and New Zealand, primarily due to lower demand from China. We also began reducing harvest volumes in the Pacific Northwest, pursuant to our previously announced strategy of harvesting at levels that are sustainable over the long term.

Real estate results in the fourth quarter were impacted by lower sales of non-strategic timberland, as we sharpened the focus of our real estate segment toward true higher and better use opportunities. And with that, let me turn it over to Mark to review our financial results in more detail.

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

Thanks, Dave. Let's start on page 4 with our financial highlights. Overall, we had a solid fourth quarter. Sales totaled $147 million, while operating income was $14 million, and net income was $9 million, or $0.07 per share.

Our fourth-quarter results included $2.4 million in legal and audit expense related to the internal review and restatements that we announced in November 2014. Excluding these expenses, as well as a small adjustment for discontinued operations, our fourth-quarter pro forma operating income was $17 million, and our pro forma net income was $11 million, or $0.09 per share.

For the full year, our pro forma operating income was $104 million, and our pro forma net income was $66 million. These amounts exclude discontinued operations, costs related to the spinoff of performance fibers, costs related to our internal review and restatement, and a cumulative out-of-period adjustment to depletion expense. A reconciliation of our pro forma results to the comparable GAAP metrics is provided on page 17 of the supplemental materials.

Adjusted EBITDA for the fourth quarter was $51 million, compared with $70 million in the prior quarter and $76 million in the prior-year quarter. For the full year, adjusted EBITDA was $235 million, compared with $220 million last year. Note that both our 2013 and 2014 adjusted EBITDA include prespin general and administrative expenses that could not be allocated to the discontinued performance fibers business.

On the bottom of page 4 we provide an overview of our capital resources and liquidity at year end, as well as a comparison to 2013. Our full-year cash available for distribution, or CAD, was $115 million compared to CAD of $83 million in 2013. Note again that both 2013 and 2014 CAD includes some G&A expenses, as well as income tax impact associated with the performance fibers business that we spun off in June which could not be allocated to discontinued operations.

Also note that we have changed our definition of CAD to simplify it and to exclude the impacts of changes to working capital from period to period, which we do not expect will be significant going forward without the performance fibers business. We believe that our revised CAD disclosure will provide investors with a more useful and consistent metric to track our underlying operational performance and cash flow generation. A reconciliation of CAD to cash provided by operating activities is provided on page 8 of the supplemental materials.

We closed the year with $162 million of cash. Our debt balance at year end was $752 million. On a net-debt basis we finished the year at a very comfortable level of $590 million, or approximately 14% of enterprise value based on our closing stock price at year end.

Pages 5 and 6 of the supplemental materials provide a variance analysis for operating income and adjusted EBITDA by segment versus the prior quarter and the prior-year quarter. Page 7 provides a variance analysis for full-year 2014 compared to the prior year. As mentioned earlier, on page 8, we provide a calculation of our CAD with a reconciliation to cash provided by operating activities.

Beginning this quarter, we are also providing much more detail on each of our timber segments, including detail on volumes, pricing, costs, and CapEx. We trust that investors will find this disclosure to be very helpful in evaluating our results.

I'll now turn the call over to Doug Long to review our US timber results.

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

Good afternoon. Let's start with page 9 and the Southern timber segment. Fourth-quarter pine sales in the Southern region consisted of 68% stumpage and 32% delivered sales. Net stumpage pine pulpwood prices increased 3% from $17.95 per ton last quarter to $18.50; sawtimber, 4% and $25.93 to $26.93; and weighted average net pine stumpage 2%, from $20.81 to $21.28 per ton. These price improvements from the third quarter were partially offset by an increase in the proportion of pulp volume to the rough mix of stands harvested.

Compared to the prior-year quarter, the weighted average net stumpage pine price increased $2.83 per ton, or 15%, due to higher prices across all products and a higher proportion of grade volume across the region. Pine volume was slightly favorable compared to Q3, as we were able to take advantage of strong spot markets at year end due to our rogue infrastructure investments allowing harvesting when it was too wet for many of our competitors. Pine volume was also favorable to the same period in the prior year.

Compared to the prior year, net stumpage pine pulpwood prices rose 15% from $16.12 to $18.48 per ton. Sawtimber was up 10% from $24.06 to $26.45, and the weighted average pine price from $18.86 to $21.20 per ton, an increase of $2.34, or 12%. Additional strength in pulpwood was primarily driven by a reduction in supply, due wet ground conditions across the region. Year over year, volume was flat.

In 2015, we expect our pine harvest to increase to 5 million tons, and our hardwood harvest volume to approximate 360,000 tons, as we integrate recently acquired properties into our harvest rotation. Additional (inaudible) capacity, such as (inaudible) lumbar in Florida and growth in pulp and product such as container board and strong craft liner demand, are expected to result in 2015 pulpwood prices comparable to 2014, which was a strong year.

[Weight] prices are expected to increase 3% to 5%, with forecasted improvement in housing starts. However, due to a higher percentage of thinnings in 2015, and changes in our regional harvest mix, we expect that our weighted average price in 2015 will be slightly lower than 2014.

Now moving to Pacific Northwest timber on page 10. The Q4 average delivered sawtimber price of $79.19 per ton decreased 6% from $83.91, while the pulpwood price of $43.23 rose 14% from $37.86. The weighted average price decreased 5%, or $3.45 per ton, due to lower domestic and export prices, combined with a higher percentage of pulp and shipments [all] being harvested.

Compared to the same period in the prior year, prices decreased $1.70 per ton, or 2%, due to high log inventories they Asia during the latter half of 2014, forcing export prices lower, combined with a reduction in the percentage of sawtimber harvested.

Pacific Northwest volumes in Q4 was 20,000 tons lower than Q3 and 129,000 tons lower than the same period in the prior year. For the full year, Pacific Northwest volume decreased 179,000 tons, reflecting the Company's new operating strategy announced in November 2014. Full-year 2014 delivered prices increased 5%, or $3.36 over 2013, due to strong export prices in the first half of the year.

In 2015, we expect that our volume in the Pacific Northwest will further decline by approximately 240,000 tons, consistent with our previously announced operating strategy. Export prices are expected to be lower, due to higher inventories in China, which will also put pressure on domestic sawtimber prices. Overall, product prices are expected to be approximately 5% lower across all grade products.

Now Dave will review (inaudible) results.

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

Thanks, Doug. Page 11 shows results and key operating metrics for our joint venture in New Zealand in which we own a 65% interest. Sales in Q4 were roughly flat, and operating income provided modest -- improved modestly versus Q3, as higher volumes and export prices were largely offset by a decline in domestic prices.

Sales and operating income in Q4 were both up modestly from the prior-year quarter, as higher volumes and income from a land sale were mostly offset by lower prices across all product categories. Lower pricing was largely driven by softening demand in the China export market, which in turn, put pressure on domestic pricing.

The decline in domestic pricing, in US dollar terms, was also partially attributable to a decline in the New Zealand/US dollar exchange rate, which led to an unfavorable price variance when converted to US dollars for reporting purposes. Since export logs are sold in US dollars, this exchange rate variance did not similarly impact reported export log prices.

In 2015, we anticipate continued headwinds in the China export market, as China works down its current high log inventories and as the devaluation of the Russian ruble makes Russian log exports more competitive. But that these unfavorable factors will be partially offset by lower freight costs due to the decline in oil prices. We expect that 2015 total sales volume will be roughly flat versus 2014.

And with that, we'll turn it over to Chris Corr to discuss real estate.

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

Thanks, Dave. The real estate business had a solid fourth quarter, with sales of over $11 million and 5,300 acres. For the full year, real estate sales totaled $77 million and 44,800 acres, with HBU sales reflecting considerable improvement over prior year.

In addition to land sales, we made progress in our project areas, including the Belfast Commerce Centre, south of Savannah, Georgia, and the mixed-use [village] north of Jacksonville, Florida.

Consistent with our commitment to promote best-in-class disclosure, page 13 is a new table illustrating key metrics for our real estate business, including acres sold and price per acre. As you can see, the table is organized into four land categories that Dave noted: improved development, unimproved development, rural, and non-strategic timberlands.

In 2014, we sold approximately 44,800 acres for an average price of (inaudible), including the 19,500-acre non-strategic timberlands sale in Florida that we recorded in the second quarter. Excluding this sale and other non-strategic timberland sales, and focusing just on development and rural real estate, 2014 sales totaled approximately $46 million on 18,900 acres for an average price of $2,417 per acre.

As you can see in the table, we have separated development into two classifications: improved development and unimproved development. Improved development means projects in which we have invested capital and infrastructure or other improvements to creates parcels or lots for sale. Unimproved development means properties with land use entitlements or other development end uses that allow for higher pricing, but for which we have not invested capital and improvements.

Currently we have only one improved development project ready for sales: the Belfast Commerce Centre south of Savannah. Consistent with a strategy we have discussed to unlock value from our development properties over time, we expect additional projects and growth in this area in the future.

Focusing now on detailed operating results, the quarter included sales of 554 acres, classified as development, including 515 acres that was part of one transaction in Georgia. While classified as development, this property was the less than desirable and non-strategic remainder of a larger tract that we entitled and sold a number of years ago.

Fourth-quarter sales included approximately 2,600 acres of land plays classified as rural, including properties ideally suited for recreation and low-density residential uses. Sales of rural land were steady throughout the year, and that interest appears to be continuing into the first quarter, although we have seen some indications of slower traffic in Texas and Louisiana, likely due to uncertainty in the region caused by lower oil prices.

Switching now to non-strategic and timberland, sales of approximately 2,100 acres in Q4 included an unsolicited sale of Mississippi of 640 acres and two sales totaling 475 acres to conservation interests in Alabama and Florida. Consistent with our stated strategy, we expect to limit sales of core timberland to those situations in which we can achieve a meaningful premium to our holding value of such land.

Regarding development projects, in Nassau County, Florida, north of Jacksonville, the Nassau District Schools has now retained a design team for the K5 schools scheduled to open in our mixed-use village project in the fall of 2017. We are excited about our partnership with Nassau District Schools, as we know that schools are a powerful real estate driver. We believe the school will catalyze opportunities that will grow the value of our surrounding lands over time.

For the full-year 2015, we expect real estate sales to be between $60 million and $70 million on volume of approximately 25,000 to 30,000 acres. The significant decrease in volume from 2014 reflects the realignment of strategy announced last quarter to reduce reliance on planned sales of non-HBU timberlands. In forecasting rural land sales, we are cautious, because as timberland values have gone, specifically in the Southeast, we are not seeing a commensurate increase in rural HBU land prices.

We have experienced more situations recently where we have passed on rural HBU sales because the offer did not achieve a sufficient premium to holding the property for timber. This has been especially true in Alabama and Georgia, markets that traditionally have been strong for rural sales.

We will create value in 2015 and beyond by staying focused on the enhancement and marketing of rural HBU properties and continuing progress on development projects.

I'll now turn the call over to Mark to review our consolidated 2015 financial guidance.

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

Thanks, Chris. Page 14 of our financial supplement provides revised guidance for 2015. We expect adjusted EBITDA for 2015 to be in the range of $190 million to $215 million. This is slightly below the preliminary range we provided in November 2014, primarily due to our current expectation of continued weakness in China log demand and corresponding revision to our outlook for the Pacific Northwest and New Zealand segments.

Our 2015 guidance also includes new detail on operating income and adjusted EBITDA by segment. Forecasted capital expenditures of $65 million to $68 million are lower than our preliminary 2015 guidance, as we refined our capital budget for the year.

Also, to assist you with your models, we expect our US income tax expense as well as cash taxes to be minimal in 2015, as the performance fibers business will no longer impact our tax expense going forward to any significant degree. We also expect our interest expense in 2015 to be approximately $33 million, excluding any incremental interest expense that we may incur from debt financed in timberland acquisitions.

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

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

Thanks, Mark. Last November we announced our realigned strategy designed to enhance long-term shareholder value. And to recap, the five key elements of that strategy are: to manage timberlands on a sustainable yield basis for a long-term result, increase the size and quality of our timberland holdings through acquisitions, optimize our overall portfolio value by capitalizing on HBU opportunities, focus on timberland operations rather than timberland sales to support cash flow generation, and finally, promote best-in-class disclosure for our investors and responsible stewardship throughout our organization.

In the fourth quarter, we began implementing our new strategy. We reduced harvest volume in the Pacific Northwest, as we begin the path to a long-term, sustainable harvest for those timberlands. During the quarter we acquired two timberland properties in Alabama and Florida, totaling approximately 15,000 acres for $36 million. For the full year, we acquired 62,000 acres of highly productive timberland, almost all in the south, for $130 million, and we closed on an additional 12,000 acres in Louisiana in January of this year for $22 million.

We're very pleased with the quality and complementary nature of the timberlands that we have acquired and expect that they will provide solid returns going forward.

Late in 2014, we began to implement our strategy of reduced reliance on sales of timberland to augment cash flow, as we focus on generating cash and supporting our dividend, primarily through harvesting of timber and ongoing HBU real estate sales. Beginning in the third quarter and now further this quarter, we have expanded our disclosures to provide investors with comprehensive information to evaluate our asset, our long-term growth prospects, and the results of our business strategy. We plan to include additional disclosures in our 2014 Form 10-K, as we aim to have transparent and best-in-class disclosures.

As we look forward through 2015, we expect further improvement in Southern pine prices, as the housing market continues to slowly recover. But we also expect some headwinds in the China log export markets. Long-term, however, we believe China will remain an important source of additional demand for our logs from the Pacific Northwest and New Zealand. Further, we continue to identify attractive opportunities to grow our timberland portfolio through acquisitions, particularly as Tema Holdings re-enter the market.

In our real estate business, we are excited about our shift in strategy to place more emphasis on adding value to selected property and less on sales of unimproved timberland. Finally, I'm confident that with our high quality assets and the dedicated people of Rayonier and our new strategy firmly in place, we're laying the foundation for enhanced long-term growth and shareholder value.

So that concludes our prepared remarks. I'd like to now close the formal part of the presentation and turn the call back to the operator for any questions that you may have.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session.

(Operator Instructions)

Mark Wilde, BMO, your line is now open.

Mark Wilde - *BMO Capital Markets - Analyst*

Hi, Dave. Hi, Mark.

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

Hi, Mark.

Mark Wilde - *BMO Capital Markets - Analyst*

Dave, just to start out, can you give us some sense of how much of that CapEx is going to be going into development properties or development situations in 2015 and beyond?

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

Hey, Mark, it's Chris Corr. In 2015, the CapEx expected is in the $3 million to $5 million range. And beyond, that's still a work in progress, but at this point, we're focused on 2015, okay?

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. And Chris, as I recall from November, what you guys said is that you'll probably focus on no more than three or four development situations at any one time. Do I recall that correctly?

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

You sure do, Mark, that's still right.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. All right. And then, Dave, I wondered if you could give us just some update on how you read the situation in China. And related to that, with the weakness in the Russian ruble, has that actually opened up more supply out of Russia? We know it's made them more competitive against dollar based, but I also wonder just whether it makes it economic to stretch further into Russian interlands or away from existing roads for timber.

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

Sure, Mark. That's a question that we've been spending some time on internally, and I think the short answer is that both of those things are happening. You certainly have -- if you think about the log export business is largely priced in US dollars, and so the value of Russian log sales has, since last summer, has roughly doubled in terms of the local currency. And so that certainly speaks to the ability to go deeper into stands that add more cost and still have it be a net positive in the market.

And then when you factor that element into the inherent quality characteristics in the market, recognize that you've got a lot of fine grain wood coming out of Russia that's generally higher quality. So when you add the higher quality wood with the lower cost, it quickly moves up the chain in terms of priority.

And then working down from that where you're mixing quality and cost, you've got exports from BC, so you've got some currency there. You've got some high quality fiber. And then you've got radiata would probably come next in terms of that mix of quality and cost. And then US Pacific Northwest, which unfortunately, comes out at the low end of that spectrum based on a combination of cost, as well as fiber. So that's why we see probably greater headwinds for our Pacific Northwest operations than we do for our New Zealand operations.

We do expect that New Zealand will have some negative impacts, but as we said in the prepared remarks, we expect a fair bit of that to be offset by lower freight rates. We're seeing freight rates now that are as low as they've been in a decade, and so that's helping take a little bit of the sting out of the market pricing. But from a planning standpoint, we're certainly expecting a much more challenging year in the Pacific Northwest, and we've seen early signs of that already.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. And then a last question, Dave. I wondered if you could just talk at all about what you see going on in the timberland market right now, relative to both valuation and M&A/deal flow.

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

This has traditionally been the slower part of the year with respect to deal flow, so it's hard to have too much of a gauge on how we see that coming out for the year. I think certainly as you looked at recent transactions, quality transactions are getting quality pricing. I think there's still a lot of capital trying to get into the asset class, and we've seen that translate into compressed discount rates and strong valuations. And I think until we see more properties coming on the market deeper into the year, we'll have a better sense of, both from a quality and pricing standpoint, how that looks for 2015.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. Great. Thanks, Dave. That's really helpful. I appreciate the additional disclosure, and good luck in 2015.

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

Thank you.

Operator

Mike Roxland, Bank of America Merrill Lynch, your line is now open.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Thanks for taking my questions, and congratulations, Mark, on your new role.

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

Thanks.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Can you give us a sense at how you're thinking about the dividend and the ability really of the Company to sustain the dividend, given the weaker cash generation out of the business? Really the question is in light of now the headwinds that you face with respect to the Pacific Northwest.

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

Sure. When we set the -- when we conducted the exercise in -- that led to our November results, we did quite a bit of scenario testing long-term on the dividend. And as we said in our third-quarter results, we do not anticipate that we will fund that dividend fully in 2015, but that we will close that gap pretty quickly thereafter.

Certainly the change in the northwest results will have some impact on that, but I don't think it's material enough to where we're worried about not being able to fund that dividend within the next couple of years. So I think it's still consistent with the longer-term planning that we did with respect to the dividend level.

Mike Roxland - *BofA Merrill Lynch - Analyst*

And Dave, is that more a function then of your expectation that Pacific Northwest will come back robustly in 2016?

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

Recognize too that we had built into our expectations a pretty significant decline in the harvest rate out of the northwest. So the northwest is going to play a much smaller role than it had been traditionally playing in terms of the Company's overall cash-flow generation. And so on the margin, that's part of the answer.

And I think certainly longer term, we're still quite bullish on the generation -- or the direction of log pricing, whether it's the China market or the US housing market. And so, I think you'll see some factors that will offset the current description that we talked about, with respect to northwest impacts on the China market.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Got you. One last question, I'll turn it over. If conditions remain challenging in the Northwest and realizing obviously that the northwest now will comprise a small part of the mix, given that you're not harvesting as much. Would it be fair to say that in evaluating the dividend, that you'll look at base HBU rural land sales to help supplement the weaker cash generation out of the core timberland business? Because I remember that you mentioned on the last call that when considering the dividend, you consider base HBU rural land sales. So if conditions remain challenging from a harvesting vantage point, would it be fair to say that we can see an increase in those land sales just to support the dividend?

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

I don't think we look at it that way. We have a pretty good disciplined process of looking at the HBU sales. One thing to keep in mind is that the HBU land sales have to provide an attractive alternative relative to the underlying timberland value. We've certainly seen some of our geographies, particularly in the Southwest, as you've had rising timberland values, and at the same time, falling oil prices that have reduced wealth, to some degree of potential buyers, you're seeing spreads narrow there. So if anything, you could see some downward pressure on some of those HBU sales in those geographies.

But we're trying to get away from looking at land sales as a way to make up the difference in terms of our cash flow. And we're really focused on long-term value creation. And so, we're willing to keep our eye on that long-term ball at the expense of the short-term ball, if need be.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Thanks very much. Good luck for 2015.

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

Thanks.

Operator

Our next question comes from Collin Mings, Raymond James. Your line is open.

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

Hey, good afternoon, guys. Thanks for the enhanced disclosures. My first question, Dave, I know you stepped out personally and bought some stock in December, but can -- maybe you update on how you and Mark are thinking about maybe allocating some of the cash on your balance sheet to repurchase some shares? Or are you just going to keep that as far as dry powder in the -- to have some flexibility as it relates to acquisitions and some of the dividend questions that have already come up? Just how do you think about that cash balance and the potential to (inaudible) Company- level purchase on a personal level.

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

Thanks, Collin. I think that certainly at a Company level, there's a couple things that come into play: one is we're in the process of figuring out how our debt capacity looks going forward. As Mark mentioned, we feel very comfortable with our debt-to-enterprise value of roughly 14% as we ended the year. And so now we're in the process of now that we've emerged as a new Company, figuring out what that debt capacity is going forward.

And then in the context of allocating the that capital to various priorities, I think right now our priority still remains growing our timberland base. While there remain -- as long as there remain attractive opportunities that we feel we can acquire at discount rates below our cost of capital, we're going to continue to look at those very actively, and we'll judge the buyback opportunities really in the context of how we see the stock price settle out.

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

Okay. That's helpful. Dave, while you -- again, sounded pretty cautious, and I would argue probably more cautious than some of your peers about the Pacific Northwest. Can you talk a little bit more about what you're seeing in the US [op]? I think you called for, call it, 3% to 5% sawlog price appreciation this year. What would (inaudible) and has that changed at all? And then just talk a little bit more about that Klausner mill that started up Live Oak. I know you guys have property in north Florida, south Georgia, talk a little about that if you could.

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

Collin, I won't pretend to be the Southern expert that I'm not, until I get my feet more firmly on the ground. But I will turn it over to Doug who can speak at length on both of those questions.

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

Good afternoon, Collin. Yes, I think we have seen some regional differences, particularly in the Atlantic where we're heavier inputs by the pulp mills and the wet weather we've seen prices drive up there. As we said, our customers there have strong product mix, but we do see it be that a lot of it was driven by wet weather.

The Gulf, we're a little more open to -- or leveraged basically, to the sawtimber demand and housing starts. What we see is as housing starts pick back up there, we probably have more strength in that area.

With respect to Klausner, we're real excited to see them. They start operations, as you probably know, and they've been active in purchasing some timber from, basically our stumpage through some of our wood buyers in Q4 and starting in Q1. And we see that as a meaningful shift in the woods basket basically.

We own about 572,000 acres within 80 miles of there, and so we've seen them, like I said, actually purchasing. We do see that as an interesting area, and we should see some growth in our Southern pricing.

As housing starts, as we mentioned, come back forward, also a lot of strength we possibly see there in that a lot of demand with increases from the Canadian companies that have bought in south Georgia and all the way across, all the way through to Arkansas basically. We're excited about the increased capacity and investments those Canadian companies have been making.

One last thing that also is pretty exciting, we've just seen recently: in Live Oak, we've seen announcement of a pellet mill going in that location. And so we think that's also a good thing for our area too. So we see some strength. In the Atlantic as we often see, but also going through our Gulf states as the housing starts pick back up.

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

Okay. Appreciate all that detail there. Just two more housekeeping questions. Just as it relates to the potential legal liability associated with some of the restatements announced in November, I know it's very difficult at this stage to be very specific, but can you maybe discuss to what extent or how those legal proceedings are progressing and to what extent there might be some insurance protection as it relates to any settlement that might ultimately come out of it?

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

Collin, this is Dave again. It is certainly very early in the process to discuss it, and would be pretty speculative on our part to try to answer those questions too much. There have been a handful of shareholder suits that have been filed. There is a process that is currently underway where those firms are applying for lead plaintiff status. As that works its way through, then the process will continue.

And really until that gets resolved and until we actually start having those proceedings go down the path, we really won't have much of a sense of what is even being asked that would then inform the -- any accrual. This process is in good hands, but it's going to be a slow process.

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

Thanks for that, Dave. Just one last one, and then I'll turn it over. Maybe I missed this Mark, but can you put some color around the reduction in the expected CapEx relative to what you came out with in November?

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

There are really two things driving that. And keep in mind, when we put out guidance back in November, it was pretty early in our budget and long-term planning process. I think that the Company felt compelled to do that, just given the magnitude and significance of the disclosures that came out at that time and trying to give folks like yourselves, Collin, some guidance as to what to expect in the next year.

Really as we refined our capital budget there were two things that came out of that. First of all, in the US south, our harvest volume is going to be heavier to thinning than it is typically, so that pulls some CapEx out of stand re-establishment and replanting. And secondly, there are actually some temporary roads or harvest roads that were in the New Zealand budget that actually were also part of the expense budget. So that was just a recharacterization that came out. That were really the two components that drove it, but it really wasn't a change in our view of putting capital into the business, but really just a refinement of the capital budget as we run through that process.

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

Thank you for all the detail. Thank you for the enhanced disclosures and good luck in 2015.

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

Thanks.

Operator

Our next question comes from Chip Dillon, Vertical Research Partners. Your line is open.

Chip Dillon - *Vertical Research Partners - Analyst*

Hi. Good afternoon, David and Mark. First question is on the basis of the land. You mentioned you expect to sell 25,000 to 30,000 acres for $60 million to $75 million in 2015. Is there a rough idea of what you think the land basis will be for those sales?

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

That's really going to be -- that's going to be pretty broad spectrum of lands, because recognize, you've got properties throughout the south that have quite a bit of different basis. That's a hard one to speculate on. Chris -- if you're --

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

While we do give guidance on what we expect to be the non-cash basis of land of $10 million, but again, in terms of where any individual sale might fall out there is a pretty wide variation. (multiple speakers)

I'm not sure if the question was around the book value or actual holding value or valuation of the land, but the guidance on what that recapture basis is, is $10 million.

Chip Dillon - *Vertical Research Partners - Analyst*

Got you. So less than 20%. I got you. That's right.

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

Yes.

Chip Dillon - *Vertical Research Partners - Analyst*

Then when you look at the -- next question is on the higher -- well, some of the [Tara] points that we used to hear about back in -- before the crisis. And you mentioned one development property that is available. It sounds to me that would not be included in this number, this 25,000 to 30,000 acres so if you could affirm that or not.

And how should we see the developed property flow come out? I know it's early days in terms of any building recovery, but could we see, say, in 2017, 2018, 2019 a ramp of properties that could sell for many thousands of dollars per acre, because you've improved them?

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

Chip, another big question that I'll try to answer for you. But on the first part of that, the project I mentioned as the Belfast Commerce Centre, and you might remember that's an industrial park south of Savannah, Georgia that we developed. Partially off of the sale to a piece of land to a Company that's in the manufacturing business and opening this year a 260,000 square foot plant with about 180 employees.

So that project there has helped provide a lot of momentum for the site. It's getting a lot of traffic and looks and notoriety. It's got some great natural features, but the industrial market's a competitive one, and so you get what you can in that market. But we expect to get our fair share and are marketing it actively.

Chip Dillon - *Vertical Research Partners - Analyst*

But small acres.

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

Yes. To your question about the 25,000 to 30,000 acres, this would be a small fragment of that. Okay?

Chip Dillon - *Vertical Research Partners - Analyst*

Good. And then last question is I noticed you changed the way you account for hunting license income. I saw where it had tended to be skewed more toward the third and fourth quarter, and you're going to prorate it out throughout the year. Could you just talk a little bit about why you made that change?

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

Really this change came about -- this is Mark, Chip -- this change came about in June around the time of the spinoff. And I think as we just looked at the issue more closely, it seemed like the right thing to do, and I think a number of our peers, it's our understanding that that's the way the timber sector in general is accounting for out.

The company and the store -- again, it's not really a change in the annual income; it's just how that income is recognized over the term of the lease. It used to be that income was recognized concurrent with the actual hunting season, so most of that income was actually recognized in Q3, but primarily in Q4. Then that change was made back in June to spread that out over the year.

That was really what drove the lion's share of -- the fact that sales were up in the Southern resources segment, and pricing was up and volume was up, but operating income was actually flat. That was really the key driver there. That drove about 6% delta in what otherwise would have been recognized in Q4, had we not made that change.

Chip Dillon - *Vertical Research Partners - Analyst*

Maybe said differently, it looks more obvious now that you've had the spin-off, whereas before it was more of a rounding error.

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

Yes, that's right. And also one of the reasons that we chose to disclose what our non-timber income is, both now and on a go-forward basis, just to give more clarity around that particular element of income.

Chip Dillon - *Vertical Research Partners - Analyst*

And then just last question, you might have answered this and I missed the answer, but when we look out and let's leave out the developed or development properties, when you look at the other categories, what would be a normal progression of how many acres per year you'd expect to sell? I would imagine based, Dave, on your comments, that as you want to depend less on sales -- land sales for covering the dividend, that that number would go down. But is there a range of was we should expect over the next five years?

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

Recognize that when we talked about the real estate acres going down, that was predominantly in that non-strategic or core timberland category. We talked about before of having what we viewed as a stable supply of the portfolio in the HBU category, that rural category. We were talking about it in roughly 1% of the Southern ownership a year. You're in the 19,000, 20,000-acre a year range that we see as a normal run rate. And that was factored into our thinking, getting back to the broader dividend question, because we saw that as a fairly stable amount of land going forward.

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

What will be incremental to that is, again, when we receive unsolicited offers on timberland properties, that again we're perfectly happy to own as timberland but the price is compelling, that's what would fall into the non-strategic category. As well as outparcels that we may choose to monetize from time to time.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay.

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

If you look over an extended history, you actually see if you the take the rural sales, it's generally been in that range of 1% of the Southern acreage.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay.

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

That seems to be the natural place where the market is.

Chip Dillon - *Vertical Research Partners - Analyst*

Thank you.

Operator

Mark Weintraub, Buckingham Research Group, your line is open.

Mark Weintraub - *Buckingham Research Group - Analyst*

Thank you. Couple questions focusing on log exports in Pacific Northwest. First, the think I was just trying to get a sense of was when you're talking about the 5% projection on the realization side, is that a sense as to where it is today, or does that build in an expectation that there would be either further deterioration and/or improvement later in the year?

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

Mark, this is Doug. The 5%, as you described, probably builds in an expectation that we'll see some deterioration, further deterioration from where we are now, but then also some possible upswing toward the end of the year too. It's not the current pricing. That's a mix over the year.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. If we were to look at current pricing, where would that come out relative to that 5%? Is it higher or lower would you say?

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

Sorry. You mean currently are we 5% higher or lower than we were in the prior year or --?

Mark Weintraub - *Buckingham Research Group - Analyst*

Yes. Basically as you mentioned, you're actually expecting to go down and then back up. So the question left it unclear as to whether or not if things were to basically stay where they are today, would your projection be at roughly 5% below for the year, above, or below?

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

We can get back to you with that answer, Mark.

Mark Weintraub - *Buckingham Research Group - Analyst*

Sure. And then just wanted to clarify, roughly how much of your harvest is being exported overseas? And I'm assuming that's predominantly hemlock, or correct me if I'm wrong on that score.

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

It is predominantly hemlock in the northwest and it varies. I'd say rule of thumb, 30%, 35% is typical.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. And in curiosity, recognizing you are primarily hemlock, are you seeing the same dynamics in Doug fur, for instance? I imagine you do have a little bit of that, but are you seeing the same dynamic? Or was your comment largely specific to the hemlock market?

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

The commentary was largely specific to the hemlock market. Generally, there certainly is some -- a, we have a smaller mix of Doug fur and B, from an export standpoint, you have Doug fur that flows to Japa,n which for us is a fairly small proportion of our mix, somewhere in that 5% range. And there's going to certainly be a portion of that that's in the China market. But the comments were really geared mostly at that heavier mix of hemlock.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. And then lastly, there was quite a build of log inventory at the Chinese port. How was that factoring into your thought process? Do you have a sense as to where that is today? And do you think that that is quite secondary to the dynamic with what's going on with currency in Russia? Or as you lay out the picture for us, that was one element that you may have referenced, but didn't get as much discussion as perhaps some of the currency issues.

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

The log inventories are very much a part of that picture, and recognize that you're going to have differential inventories of species from different regions. It's our understanding that the inventories relative to consumption right now are heavier for Pacific Northwest logs. I think overall we've seen inventories build as we get into the Chinese New Year into that neighborhood of the 4 million cubic meter range, which is higher than everybody would like to see it.

So you're really dealing with where are incremental supplies going to be coming from, and as you have those high inventories and combining that with where the ruble is priced, you're just not going to see as much flow coming out of the Pacific Northwest. And you see indications -- we're seeing indications of that already, just in terms of buying behavior in the Pacific Northwest where you're seeing people addressing ships that are currently under contract, but you're not seeing additional volumes. Then that ripples back through the rest of the market.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. We can certainly come back and discuss this offline if it makes more sense, but just wanted to clarify. When you talked about going back up to 4 million cubic meters, my understanding was it had been about 4.5 million middle of the year. It had actually come down to 3.25 or so by the end of the year. Are you suggesting, do you have later intelligence that's indicating take that it's actually gone back up subsequently, or am I --?

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

Yes, we understand that it has indeed gone back up.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay, thank you very much.

Operator

Our next question comes from Steve Chercover, DA Davidson. Your line is open.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

It's still morning here on the West Coast, so good morning. Three quick questions. First of all, I think on the surface, the notion that New Zealand radiata pine would be better fiber in the Pacific Northwest, just to maybe beat a dead horse, that's primarily because you're skewed towards hemlock as opposed to Doug fur, right?

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

No, Steve, my comment was really the combination of the currency value and the fiber. So I think the northwest fiber is generally viewed as better fiber but than the New Zealand radiata pine. But it's not when you factor in the higher cost in a dollar basis, when you think about the movement of the New Zealand dollar. That was the statement that took into account both factors.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

That's how I understood it, and then maybe I went down a rabbit hole when we started talking about hemlock. But in the Pacific Northwest, is your site class amenable to planting Doug fur when you do replant?

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

Yes, we have -- I would say that Doug fur is a very strong component of what has been planted for quite a number of years. And so while our mix today is a heavy hemlock mix, if you fast forward 10, 20 plus years, you're going to see that mix gradually improve and increase on the Doug fur side.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

Great. Thanks for that clarification. And then switching to the Southeast, I believe if I was listening properly, I understood that despite sawtimber being up 3%, your average log realizations would be down in 2015 because of the thinnings.

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

That's correct. We've identified a backlog of thinnings that we're going to undertake to try to increase the long-term value basically. So as the year goes on, our mix of pulpwood's going to be greater. Even though we're having increased per-product pricing we do see a slightly down in the overall average price. It's really volume by grade and also harvest by region.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

I guess that's --

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

Steve, part of that is a function of this was a very, very wet year this last year. So you just don't want to get into those stands with machinery that will damage soils. So to some degree it's a function of the wetness. But also, we're trying to look out into the future where we see stronger long-term sawlog pricing characteristics. So we're wanting to make sure we get that thinning taken care of in the near term.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

That makes sense.

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

Some of our pricing data, Steve, we're getting extraordinarily strong pulpwood pricing in certain markets. And so part of it is just a function of the geographies that we anticipate harvesting in next year. To the extent that it's in markets that aren't as strong on the pricing side. So we see average product prices on a market-by-market basis going up, but our weighted average product price going down, just slightly because of the geographies in which we anticipate harvesting.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

Well thanks. I think that might be a little surprising because through the downturn, a lot of people had leaned on the thinnings to offset the decline in sawlog demand.

My final question is respect to the non-timber income. In addition to the hunting leases you have, do you have much potential from minerals or aggregates and have you explored that?

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

Yes, we have. We have a geologist on staff and we're constantly looking at those opportunities and working on several things right this minute. We do look at that a lot and have one active heavy minerals operation going on in Georgia and looking at other opportunities as we move forward.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

But it's not a big component of the non-timber income at present, right?

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

Not at the present. It's something we're building on right now.

Steven Chercover - *D.A. Davidson & Co. - Analyst*

Hopefully we'll hear more about that. Thank you.

Operator

Paul Quinn, RBC Capital Market, your line is open.

Paul Quinn - *RBC Capital Markets - Analyst*

Thanks very much and good morning. Just a couple questions. One, just a comment on the increased disclosure. It's thankful. It's actually almost too much now. It's actually quite a bit of work to revise the model, given all the new you information you've got, but thanks for the direction.

Question on just following up Mark Wilde's question on the Russian response. Definitely understand that competitive nature with respect to the Russian ruble. Just wondering whether you've seen or have got evidence of on-the-ground activity that's increased in Russia. We've always heard for a long time biologically, you see it significantly higher than the current harvest, so there's opportunity. But we've also heard about all sorts of infrastructure issues in railroad, truck, logging, contractors, et cetera. Just wondering if -- how long you expect -- if the ruble stays down here, is there a significant ramp-up over 2015, and how pronounced do you think that will be?

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

That's a fabulous question, and we talked about that with our log trading guys. I think the short answer is there's elements of truth to a lot of that. There clearly are infrastructure challenges in Russia that irrespective of where the ruble is, those are very challenging issues. And so, that's going to face the market, I think under all circumstances. And I suspect that that does indeed limit the ability of any short-term impacts in the market.

My own suspicion is that some of this may come down to the interplay of oil prices and the relationship that that has in an oil-rich country like Russia, of just what they do from a labor standpoint and an investment standpoint, whether they decide to take on any of these infrastructure projects faster than they might otherwise do. But I don't see that as a short-term fix. It's still probably a pretty far off.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. Thanks for the that. And then just if you could give us some additional details on your Q4 2014 and Q1 2015 timberland purchases and how they relate to your acquisition metrics, especially cost of capital. And then, just adding on that, just what your expectation is for additional timberland offerings in 2015.

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

Sure. The acquisitions that we acquired in Q4 and the one we talked about in January, the three acquisitions, all three of them are in geographies that these properties fit into geographies where we had an existing presence. And so they were very much bolt-on type acquisitions. They all had strong stocking, and so we saw them as attractive from the standpoint of fitting into our management structure with little incremental cost, as well as feeding incremental harvest volume going forward.

And so those are the types of transactions that we're going to continue to look upon favorably. They are smaller, perhaps, than the Company has looked at in the past, but I'm quite pleased when you think about the amount of timber that we purchased this year in relatively small doses. So we're continuing to look for those opportunities, and we think that some of those smaller deals are well suited for some of the types of deal flow coming forward.

As to 2015 deal flow, I think it's still too early. At the end of first quarter, second quarter, we're probably going to have a much better sense of how the deal flow looks for the year.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. That's all I had. Best of luck.

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

Thank you.

Operator

Daniel Rohr, Morningstar. Your line is open.

Daniel Rohr - *Morningstar - Analyst*

Thanks a lot. First just wanted to thank you again for all the additional disclosures in the supplement. Great stuff. You mentioned you expect harvest [volumes] in the south to be modestly higher than 2014, around 5.36 million. I think you had mentioned, if I'm not mistaken, on the last call that 5 million tons is the ballpark expectation for the south over the next five years. So my question is, is 5 million tons still the base case, and how do you expect mix to fare over the next several years in the south?

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

I think there's a couple pieces to that. Recognize that when we put that announcement out there, there were still a number of the timber acquisitions that we closed on were not completed yet. We estimate that roughly 300,000 tons a year are coming off the acquisitions that we added this year. And then in addition, we've done some further refinement on our hardwood volumes going forward. A

nd so it's a little bit of a mix of the new acquisitions and the hardwood volume going forward. But the 5.3 that Doug talked about, that is a more refined going-forward number than the 5 million that we talked about in round terms back in November.

Daniel Rohr - *Morningstar - Analyst*

Great. Would you expect the pulpwood share of that 5.3 to fade towards 2018?

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

Of the acquisitions?

Daniel Rohr - *Morningstar - Analyst*

Of the total, of the total 5.3, I think the pulpwood share is going to be a little higher this year than last due to the thinnings. But as you look into 2016, 2017, 2018 with hopefully a stronger housing market, do you expect that pulpwood share to decline?

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

We do, Dan. We started our thinning regime primarily in about 2007. So as those [stands], we give them 10 years to come of age. So we're looking at us going into 2017, 2018, 2019 that we should see a shift in mix. Some of the stands we're already -- we're starting to harvest this year for the first time. So as we get through the last of the thinning backlog that we see this year we've identified as primarily that. We will see a mix shift as we move forward in the -- out in 2017, 2018, 2019, in particular.

Daniel Rohr - *Morningstar - Analyst*

Okay, great. And then, discount rates have come up a few times in the past half hour. What rates do you think institutional investors are using nowadays? And what rate do you have in mind for Rayonier when you're looking at timber property?

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

I'm not sure I want to describe what we're using in a discount rate standpoint. And I think that you're going to find a mix of institutional investors that are both above and below the current market clearing discount rates that are out there.

Daniel Rohr - *Morningstar - Analyst*

All right. Thanks.

Operator

Mark Wilde, BMO, your line is open.

Mark Wilde - *BMO Capital Markets - Analyst*

A couple of follow-ons. If I look out there in 2018, 2019, 2020, in the south, what would be the proportion you would suppose between sawtimber and pulpwood?

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

We probably have to get back to you on that, Mark. I don't know that we have that refined of a sense, other than directionally we know it's going to go in that movement. I think some of it is probably also going to be a function of the pace of the housing recovery.

Mark Wilde - *BMO Capital Markets - Analyst*

All right. That's fair, Dave. Another question I had, you've been in about six or seven months now, Dave. I'm just curious on your thoughts around overhead and staffing levels at Rayonier. Are there areas where you think you can pare back? Are there areas where you think the Company might actually want to be spending more money on staffing expertise?

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

I would say that following our November announcement, that is something that we have spent more time on as a management team. I think that there's a mixture really of both of those categories. Certainly, there have been areas in the real estate area in particular, and to some extent in some of our staff areas where we -- as we pulled the Company into two, we had some holes here to fill from a staffing standpoint.

And then going forward, what we're really taking a more comprehensive look at is making sure that our various business processes are right-sized for our business activities. And that really will get to the bigger picture of do we have opportunities to look for cost reductions on the overhead side? But that's -- I would say that's still in the early stages.

One of the areas that we have acted on already is we have taken a layer of management out within our timber operations. We used to have a divisional layer where we had six different resource units report through two division leaders that then reported into Doug's role. And what we have done is essentially eliminate that layer and have those divisions reporting, those resource units reporting directly to Doug.

And that was done very intentionally to push decision-making down deeper into the organization and flatten the organization. But at the same time, it's going to have some positive cost effects as well.

So that's an example of some of the early things that we've done. There will be more to follow as we do more detailed assessments.

Mark Wilde - *BMO Capital Markets - Analyst*

Then the last question I had, you've got so much land in the Southeast and it's probably one of the faster growing areas in the US. One other revenue stream I'm curious about is things like mitigation banking, which some of the -- I know some of the big private land owners have gone into down there. Is that another stream that you could see being significant in the future?

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

We have talked about that question. I think to some degree, the scale of conservation sales that we have done have probably limited some of that potential for us going forward. If we had a large -- we completed a large land classification effort last year, and we just did not have a huge component of our land base that fell into that category that would be a likely home for mitigation banking.

But I agree with you that it's definitely an emerging area, and there's a number of people that are trying to develop that expertise and help companies like ours unlock some more of that value.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. All right. Good enough. That's all I've got. Good luck this year.

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

Thank you.

Operator

And our last question comes from Collin Mings, Raymond James. Your line is now open.

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

Hey, thank you. Just want a couple of quick follow-ups. Dave, I'm just curious your perspective, given you've see the fall in the Pacific Northwest market for a long time. Clearly, during the call, there have been a lot of issues as far as the headwinds that are out there right now.

I'm just curious, do you think that this could lead to a softening or cooling of timberland values in the region at all? Recognizing obviously, you don't have quite the deal flow in the south that you have in the south, and it's an area that a lot of investors want to own. Just curious if you think timberland values there might have gotten too inflated in [context] with some of the headwinds that we're seeing in 2015?

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

Net-net, that would surprise me for a couple of reasons. One, when timber valuations are done, you're looking out across the full rotation age of harvest values, and we -- a good example of this was during the downturn of the global financial crisis where we did not see a commensurate decrease in timberland values that we did in log values. And so -- and this certainly won't be anywhere near that type of price decline, so I don't necessarily see that occurring.

And then number two, we're just that much closer to the ultimate recovery in housing markets, and then when you combine that with a shrinkage of supply coming out of Canada and even a more modest export market, you're still going to see a fair bit of underlying pricing pressure.

So I'm not sure that I would see that having a material effect on timberland values. It certainly will have a near-term effect on log values from, perhaps recently acquired properties that have a heavy merch component. But I'd be surprised if you saw a big movement in timberland values.

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

Okay. Then just the very last one I have is just tying together the questions about the G&A, as well as the internal review you guys conducted. How do you think about structuring incentives for employees out in the field, for different managers, as far as trying to balance, obviously, optimal outcomes in the short term, as far as cash flow and earnings? But then some of the long-term issues that maybe in the past the Company had gotten too far ahead of itself as far as on the cutting and harvesting in the west. How do you think about designing a [finished] structure that keeps the sustainability, if you will, of the harvest activity going forward?

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

That's a great question, and it was something that we very intentionally looked at as part of our effort in November. And we started a process this last fall of basically taking our incentive compensation structure and starting fresh. We brought in a new compensation consultant.

We're also moving away from a system where we had quite a number of different incentive systems with different parts of the Company. For example, we had systems -- incentive structures for our corporate employees, ones for our forest resources employees, ones for our real estate employees. That gets hard to have multiple systems that work in conjunction.

And so what we're going to be doing is going to a system that is one system for all. We're using the term one Rayonier here in a number of the initiatives that we're looking at in terms of the Company, and the incentive system is certainly part of that.

So we're in the final stages right now of that design effort, and it will have a long-term focus to it. It will have a focus that is more cash-flow based. The old system had a heavier influence on net income, so we're moving away from that. And we really feel that this system, both having everybody on the same one and having it be long-term in nature is going to be a lot more consistent with the goals that we laid out and the strategies that we laid out going forward.

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

Thanks again, guys. Really appreciate the color on the call today.

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

Thank you.

Operator

I show no further questions.

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

All right. Thank you, everybody. And we will talk to you next quarter.

Operator

This concludes today's conference call. Thank you for participating. You may disconnect at this time.
