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RYN.N - Q1 2022 Rayonier Inc Earnings Call

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**OVERVIEW:**

Co. reported 1Q22 sales of $222m, net income attributable to RYN of $29m and EPS attributable to RYN of $0.20.

## CORPORATE PARTICIPANTS

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## PRESENTATION

**Operator**

Welcome, and thank you for joining Rayonier's First Quarter 2022 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. Collin Mings, Vice President, Capital Markets and Strategic Planning.

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**Collin Mings** - *Rayonier Inc. - Vice President-Capital Markets & Strategic Planning*

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

I would like to remind you that in these presentations, we include forward-looking statements made pursuant to the safe harbor provisions of federal securities laws. Our earnings release and Forms 10-K and 10-Q filed with the SEC list some of the factors that may cause actual results to differ materially from the forward-looking statements we may make. They are also referenced on Page 2 of our financial supplement.

Throughout these presentations, we will also discuss non-GAAP financial measures, which are defined and reconciled to the nearest GAAP measure in our earnings release and supplemental materials.

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

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

Thanks, Collin. Good morning, everyone. First, I'll make some high-level comments before turning it over to Mark McHugh, Senior Vice President and Chief Financial Officer, to review our consolidated financial results. Then we'll ask Doug Long, Senior Vice President of Forest Resources, to comment on 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 the remainder of 2022.

Overall, we were very pleased with our strong start to 2022. For the first quarter, we achieved earnings per share of $0.20 and adjusted EBITDA of $98 million. First quarter adjusted EBITDA increased 41% versus the prior year quarter as record results in both our U.S. timber segments, coupled with a very solid contribution from our Real Estate segment, more than offset lower adjusted EBITDA from our New Zealand timber segment.

Drilling down on our different operating segments. Our Southern Timber segment generated adjusted EBITDA of $48 million for the quarter, which was 53% above the prior year first quarter and represented an all-time record quarterly result for this segment. We're very encouraged to see strong demand drive a 31% increase in net stumpage realizations, while favorable logging conditions further contributed to a 25% increase in harvest volumes. These strong results in our Southern Timber segment are a testament to both the strength of our operating areas as well as our team's ability to capitalize on favorable market conditions.

In our Pacific Northwest Timber segment, we achieved adjusted EBITDA of $22 million, up 22% from the prior year quarter. And likewise, an all-time record result for this segment. The year-over-year increase was primarily attributable to 17% higher log prices, partially offset by a modest reduction in harvest volumes and higher costs. Our operations in the region continue to benefit from very favorable domestic lumber markets as well as healthy export market demand.

Conversely, financial results in our New Zealand Timber segment declined significantly versus the prior year quarter as higher pricing was more than offset by compressed margins due to significantly higher shipping costs, 14% lower production volumes and unfavorable foreign exchange impacts. First quarter adjusted EBITDA in our New Zealand Timber segment was $10 million, down from $21 million in the prior year quarter.

In our Real Estate segment, we generated adjusted EBITDA of $25 million, up considerably from $5 million in the prior year period as a significantly higher number of acres sold was partially offset by a modest decrease in weighted average prices due to the mix of acreage sold. Our team continues to do a tremendous job of capitalizing on strong demand for rural land as well as residential lots and commercial parcels within our development projects.

With that, let me turn it over to Mark for some details on our first quarter financial results.

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**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 $222 million, while operating income was $45 million, and net income attributable to Rayonier was $29 million or $0.20 per share. Pro forma EPS was also $0.20 per share as we had no pro forma items in the quarter.

We generated first quarter adjusted EBITDA of $98 million, which was up considerably from the prior year period due to much higher contributions from both of our U.S. Timber segments as well as our Real Estate segment.

On the bottom of Page 5, we provide an overview of our capital resources and liquidity. Our cash available for distribution, or CAD, for the quarter was $65 million versus $47 million in the prior year period. The increase was primarily driven by higher adjusted EBITDA, partially offset by higher cash taxes, cash interest paid and capital expenditures. Note that cash taxes were elevated in the first quarter due to the required timing of tax payments for our New Zealand subsidiary, following the full utilization of its NOLs. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on Page 7 of the financial supplement.

Consistent with our nimble approach to capital allocation, we raised $30 million through our at-the-market equity offering program during the first quarter at an average price of $41.46 per share. As previously discussed, we view the ATM program as a cost-effective tool to opportunistically raise equity capital, strengthen our balance sheet and match fund bolt-on acquisitions.

We closed this first quarter with $257 million of cash and $1.3 billion of debt. Our net debt of $1 billion represented 14% of our enterprise value based on our closing stock price at the end of the first quarter. Looking ahead, we believe our balance sheet is well positioned for a higher interest rate environment, following the steps we took in 2021 to extend our debt maturities and lower our average cost of debt. Currently, our weighted average maturity is roughly 7 years. Our weighted average cost of debt is roughly 2.7%. And essentially, all of our debt is fixed.

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

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

Thanks, Mark. Good morning. Let's start on Page 8 with our Southern Timber segment. As Dave mentioned, we achieved record quarterly adjusted EBITDA in the first quarter of $48 million, which was $17 million above the prior year quarter. The year-over-year improvement was primarily driven by a significant increase in net stumpage pricing and higher harvest volumes, partially offset by higher costs and lower non-timber income.

More specifically, volume climbed 25% during the first quarter as drier conditions enabled stumpage customers to ramp up production to meet strong demand despite ongoing constraints on trucking availability. Sawlog stumpage pricing rose 29% versus the prior year quarter. At over $35 per ton, first quarter pricing marks the highest average Southern sawlog stumpage realizations we have registered in over a decade. The improved pricing reflects strong demand from sawmills as the increased capacity that has been built over the past few years in several of our wood baskets continues to come online and benefit from strong lumber prices.

Upward pressure on chip-n-saw pricing due to increased competition from pulp mills was also a positive contributor. Pulpwood pricing also improved significantly to over $24 per ton, increasing 41% from the prior year quarter, reflecting robust competition across several wood baskets as customers look to secure supply and replenish low mill inventories. Overall, weighted average stumpage prices improved 31% year-over-year.

We continue to be very encouraged by customer demand and the pricing environment across our Southern footprint but have recently seen pricing gains moderate in some operating areas as mill inventories normalized with drier weather conditions, resulting in more favorable logging conditions, which increased available supply in some markets.

Southern log exports remain constrained by the pine wood nematode policies implemented by China earlier this year. Several exporters in the U.S. South have exited the market in response to these policies. We are still working with our valued customers in China to provide log shipments to specific ports where the customer assumes phytosanitary risk upon delivery. However, we have largely pivoted our U.S. South log exports to Vietnam and India for now. While we expect the nematode policies will remain a headwind over the near term, we believe that strong underlying demand, coupled with the breadth of our export capabilities, leave us well positioned longer term to supply logs to our customers in China and other parts of Asia through our U.S. South export program.

Moving to our Pacific Northwest Timber segment on Page 9, we likewise set a new record with quarterly adjusted EBITDA of $22 million, which was $4 million above the prior year quarter. The year-over-year increase was driven by higher stumpage realizations, partially offset by lower harvest volumes, higher costs and slightly lower non-timber income. Volume declined 6% in the first quarter as compared to the prior year quarter. primarily due to the timing of stumpage sales.

Turning to pricing, at roughly $106 per ton, our average delivered sawlog price during the first quarter was up 16% from the prior year quarter as domestic sawmills benefited from strong lumber prices and healthy export market demand provided incremental tension to the market. Meanwhile, pulp wood pricing increased 28% in the first quarter relative to the prior year quarter as demand from pulp mills in the region remains quite favorable with all mills operating near capacity.

Page 10 shows results and key operating metrics for our New Zealand Timber segment. Adjusted EBITDA in the first quarter of $10 million was $11 million below the prior year quarter. The decline in adjusted EBITDA was largely driven by higher freight and demurrage costs, lower harvest volumes and unfavorable foreign exchange impacts, partially offset by higher carbon credit sales. Volume declined 14% in the first quarter as compared to the prior year quarter as production at the beginning of the year was deferred in response to port congestion and elevated log inventories in China.

At nearly $128 per ton, average delivered prices for export sawtimber were up 5% in the first quarter as compared to the prior year quarter but down from the highs seen in the last 3 quarters of 2021. The improvement in export sawtimber prices versus the prior year period reflected our ability to pass on some of the higher freight and demurrage costs we are experiencing to our customers. Chinese log inventories remain elevated throughout the first quarter, but the pricing environment for radiata pine logs appears to have stabilized and overall log inventory levels are slowly coming down. That said, offtake from ports remains relatively weak given the COVID-related lockdowns that have been imposed in parts of China.

A significant level of uncertainty remains around the ongoing COVID-19-related disruptions in China as well as the prospect of Chinese policymakers implementing new stimulus measures. However, we expect that as demand stabilizes, export sawtimber prices will likely move higher due to ongoing supply side constraints, including the reduced flow of European logs in China, the continued ban on Australian log imports by China and the ban on Russian log exports that commenced at the beginning of this year.

Shifting to the New Zealand domestic market. Demand has remained strong to start 2022. During the first quarter, average delivered sawlog prices in U.S. dollars decreased 6% from the prior year period to $76 per ton. However, excluding the impact of foreign exchange rates, domestic sawtimber prices actually improved 1% versus the prior year period. Average domestic pulp wood prices declined 13% as compared to the prior year quarter, which is also driven in part by foreign exchange rates as well as less export competition.

We resumed sales of carbon credits in New Zealand in early 2022, following a more than doubling of carbon credit pricing over the prior year. However, we subsequently paused sales as the war in Ukraine disrupted carbon markets globally in February, leading to a pullback in pricing. Pricing has since partially recovered to above 2021 average pricing. Moving ahead, we plan to remain opportunistic in our sale of carbon credits depending on market conditions.

Lastly, in our Trading segment, we posted a slight operating profit in the first quarter. As a reminder, our trading activities typically generate low margins and are primarily designed to provide additional economies of scale to our fee timber export business.

I'll now turn it back over to Mark to cover our real estate results. Mark?

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

Thanks, Doug. As detailed on Page 11, our Real Estate segment delivered strong first quarter results. Real Estate sales totaled $34 million on roughly 8,700 acres sold at an average price of just over $3,800 per acre. Real Estate adjusted EBITDA in the first quarter was $25 million.

Sales in the Improved Development category totaled $5 million. In our Wildlight development project north of Jacksonville, Florida, we closed on $3.6 million of sales during the quarter, representing 52 residential lots for an average price of roughly $70,000 per lot. In our Richmond Hill development project, which we have branded as Heartwood, we closed over $1 million of sales during the quarter, including 10 residential lots at an average price of $44,000 per lot and a 4-acre commercial property for $246,000 per acre.

We've been encouraged by the activity within our Heartwood development project and are excited that Pulte Homes is set to open initial model homes there this summer, adding to the positive momentum surrounding this project. Much like Wildlight, we expect that the Heartwood project will benefit from favorable migration and demographic trends impacting the local market area.

Turning to the rural category, sales totaled nearly $17 million, consisting of approximately 4,800 acres at an average price of just under $3,600 per acre. Thus far in 2022, demand for rural land has remained healthy as the space, privacy and recreational opportunities offered by these properties continue to attract buyers. Despite the recent increase in interest rates, demand for rural land has held up well, and our team has built a solid sales pipeline for the balance of the year. Lastly, during the first quarter, we also closed on the sale of just under 4,000 acres of nonstrategic holdings in Clallam County, Washington for roughly $11 million to a conservation-oriented buyer.

Now moving on to our outlook for the balance of 2022. Following a solid start to the year, we are well on track to achieve our prior full year adjusted EBITDA guidance of $310 million to $340 million. In our Southern Timber segment, we expect to achieve our full year volume guidance and are encouraged by the year-over-year pricing gains that have been realized across our operating areas. Overall, we continue to expect a significant increase in full year adjusted EBITDA from this segment as compared to the prior year. However, we anticipate lower quarterly harvest volumes for the remainder of the year as compared to the first quarter as we experienced above-average stumpage removals to start the year.

Also, while we expect net stumpage realizations to remain well above prior year levels, we anticipate modestly lower weighted average prices for the remainder of the year as compared to the first quarter due to higher mill inventories, a higher proportion of thinning volume and a less favorable geographic mix.

In our Pacific Northwest Timber segment, we expect to achieve our full year volume guidance, although we expect lower quarterly harvest volumes for the balance of the year following strong removals in the first quarter. We further expect that weighted average log prices will remain near first quarter levels for the balance of the year, driven by continued strong sawtimber demand and improving pulpwood markets.

In our New Zealand Timber segment, we expect to achieve our full year volume guidance with increased quarterly harvest volumes for the balance of the year. While a significant level of uncertainty remains around the ongoing COVID-19-related disruptions in China, we expect that once demand stabilizes, constrained log supplies will drive export sawtimber prices higher. We further expect that domestic sawtimber and pulpwood pricing will remain relatively flat for the balance of the year. Consistent with our previous guidance, we anticipate a higher adjusted EBITDA contribution from this segment in the second half versus the first half of the year.

In our Real Estate segment, we expect to achieve our full year adjusted EBITDA guidance. Following strong real estate results in the first quarter, we anticipate lower quarterly results for the balance of the year. Overall, we remain intently focused on achieving significant premiums to stand-alone timberland values through the activities of our real estate platform.

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

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

Thanks, Mark. Over the last several years, we've taken deliberate steps to continually improve the quality and diversity of our timberland portfolio as we look to grow cash flows and value per share over time. We believe active portfolio management, if done well, can create alpha for our investors. The acquisition of Pope Resources in 2020, as well as the numerous other acquisitions and dispositions our team has successfully executed since our separation into a pure-play timber REIT, have been made with an eye toward improving our land base and long-term financial profile.

To this end, we were very pleased with the record quarterly adjusted EBITDA results posted by both our U.S. Timber segments to start 2022. We believe these results reflect not only improving market conditions, but also the relative strength of the markets we operate in as well as the quality of the people we have in place to capitalize on the opportunities afforded by our assets.

As we look out over the balance of 2022, we are optimistic about the end market demand we are seeing. While we are not immune from the supply chain and inflationary pressures that are impacting many parts of the global economy, our team continues to be quite successful navigating logistical challenges and recouping cost increases through higher log pricing.

In addition to our strong financial performance to start the year, I'm also encouraged by the steps we're taking to prepare Rayonier for a low-carbon economy. We believe that carbon represents a very significant opportunity for our sector, not only to be part of the solution to climate change, but also to improve the economics of our forests.

Ultimately, by using more wood and by substituting them for other more energy-intensive building products, such as concrete and steel, we have the potential to sequester more carbon and reduce net greenhouse gas emissions. We also believe forestry will play a key role in the voluntary carbon offset markets and further view our land resources as a means to support other advancements designed to help combat climate change, such as renewable energy infrastructure and carbon capture and storage projects.

In sum, 2022 is off to an encouraging start, and our team is actively taking steps to ensure we're well positioned to generate industry-leading returns and build long-term value per share. To this end, following the actions we took in 2021 to strengthen our balance sheet and optimize our cost of capital, we believe we are well positioned to execute on future high-quality growth opportunities.

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

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question will come from Anthony Pettinari with Citi.

**Anthony James Pettinari** - *Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst*

I just wanted to follow up on trends into China. In terms of offtake from ports and demand there, is it currently deteriorating? Or is it stable or maybe improving a little bit?

And then just kind of relatedly, you discussed the supply constraints, capacity constraints from Europe, from Russia, from Australia, which seems significant. I don't know if there's any way that you can kind of frame or quantify those supply constraints into China specifically?

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

Sure. This is Doug. At the end of April, log inventories at China's main ports were around 5.7 million cubic meters. That was down about 2% from March. However, the offtake from the ports does remain below what we would expect post Lunar New Year. Many construction projects are put on hold as COVID cases in China were on the rise. That's prompted Chinese authorities to impose lockdowns and travel restrictions. So while log inventory levels remain elevated, we do expect consumption to pick back up and inventory levels to normalize as the pandemic situation improves and lockdowns are lifted.

And the recent Chinese government stimulus measures, coupled with constraints on the flow of logs in China that we noted in the prepared remarks, do contribute to our expectation that the second year -- the second half of the year will be relatively better for our New Zealand operations. Right now, we're seeing removals from the ports at about 50,000 cubic meters per day, and that's down significantly from what we'd expect to see and probably half of what we expect to see during this time. So it is definitely offtake is down from where we'd expect to see. A lot of that has to do with, we believe, the COVID measures.

But to the point, we're seeing the inventory going down, it has come down 2%. And part of your question there about Europe, we've seen supply come down about 50% over the same period last year from Europe, so a significant reduction from there. Also from South America, significant reductions, down over 80% over the same period. That's due to the high freight rates we're seeing. So while offtake is down from where it should be due to COVID lockdowns, we're also seeing really decreased inbound logs to China, and you have the additional restraints coming out of Australia and then the log export ban out of Russia. So just a lot of things that have brought down the amount of wood coming in.

We do believe that if lockdowns are removed that the slowdown in log supply will take several months to correct. So it's not just something you can turn on the switch and it comes back. Once you put wood on the water, it's going to take a month at least and take a while to build those inventories to even get the wood on the water. So we do think the inventories in China will be drawn down quite quickly. And as that happens, we're looking at places like New Zealand going into winter time, and so their production will also be slower.

So really, we do believe that second half of the year should be pretty good for us. China is promoting significant stimulus package of around $2.3 trillion to recover the economy after lockdown, and they've said that's going to be through increased infrastructure investments, some further tax breaks and reducing their bank reserve ratio to put more liquidity in the construction market. And China's construction market employs about 25 million workers domestically, so you have to think infrastructure is a really big lever they have to pull to try to improve things as they get out of COVID lockdown.

**Anthony James Pettinari** - *Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst*

Okay. That's very helpful. That's very helpful. And then just regarding potential further growth opportunities after you've deleveraged post Pope, is it safe to say that you might be primarily focused on kind of bolt-ons in -- around kind of coastal Southeast regions that you're already established? Is it possible to continue to grow in New Zealand or Pacific Northwest? Would you maybe look at other regions of the South or maybe further east in the South? I'm just wondering if you could talk about sort of the opportunity set and potential size of acquisitions that you might go after.

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

Sure, Anthony. This is Dave. I think that we're active pretty much all the time in all 3 of our geographies. We're active both on looking at bid properties as well as privately negotiated transactions. And we, first and foremost, look for complementary fit to our existing assets. And then we also are looking at both CAD and NAV accretion, and I think that's -- that last point is important. We don't believe in just growth for growth's sake. We're looking to have that NAV accretion. And so in our minds, that's one of the areas that kind of keeps us disciplined.

But right now, it's a pretty active market. Our team is very busy, but we're also remaining pretty disciplined. There's a lot of buyers right now. You're seeing increased capital flowing into this asset class based on some of the inflationary pressures and the view of timber being an inflation hedge. You're seeing it also in the context of just general geopolitical risk and a flight to quality, flight to safety. And then lastly, with rising lumber prices, you've got a number of integrated players that are bidding aggressively based on high lumber prices. So it's a pretty competitive market right now, but we're active across it.

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**Operator**

Next, we'll hear from Mark Wilde with Bank of Montreal.

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

I wondered, just starting out, I mean the pricing was -- in the South was just remarkable this quarter, Dave. I'm just curious if you want to put any more color around that. And just any thoughts on whether this is indicative of a broader turn in the Southern Timber market? I think a lot of us have written about the market having been fairly depressed on a South-wide basis over the last 15 years.

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

Sure, Mark. This is Doug. As we've been discussing for the past 5 years, we believe that U.S. South is not a homogenous market and that we're well positioned in wood baskets with tightening growth-to-drain ratios. During that time, we've made portfolio decisions to exit certain wood baskets that we believe will be fundamentally weaker for a long time and to grow markets that were poised for market tension due to declining growth/drain ratios. So we believe this is really starting to come to play and as we've seen and been talking about now for quite a while and saw the results in 2021 also.

I'll start at a high level and then touch a bit more on the pricing realizations that we reported in our supplemental data. So as discussed in our prepared remarks, we're really encouraged by the pricing gains we've seen over the past year or so. Sawtimber and chip-n-saw pricing was up across each of our resource units in the South versus a year ago. So it's been across the entire South that we've seen this, but it has been different depending on the resource units we're operating in. And Pulpwood prices were higher in all but one as compared to a year ago. I really think the magnitude of the year-over-year gains that we've been able to post reflect the relative strength of the specific markets that we're operating in across U.S. South.

In addition, our team has done a nice job bringing certain tracts to market at the right time to align with the weather conditions or localized supply-demand imbalances. And so we're off to a very strong start here in 2022, and we think this positive momentum will continue as the mills ratchet up operations and COVID-related disruptions become less common.

Many of our markets are positioned to maintain a pricing premium to the South wood averages as we move forward based on what we're seeing on the recent increases that we've had in capacity. And as we think about it, Florida and Georgia had roughly 1 billion board feet have come online since 2020, and that's on top of an additional 1 billion board feet that came between 2018 and 2020. So you're talking about the equivalent to 4 million tons per 1 billion board feet, so about 8 million tons of demand just in that Florida and Georgia market. Those increased saw log demand in these markets has really created a well-tensioned wood basket where pricing has responded.

And encouragingly, in Alabama, we've added about another 600 million board feet since 2020, and we're seeing demand in this market materially improve also. The growth/drain ratio is large in Alabama. So pricing has been a little more tempered but still very favorable, and we're seeing improvements. And then finally, as we move further west in the Gulf states, Texas, Louisiana, sawmill capacity expansions have been a bit slower, but we're tracking about another 500 million board feet of oncoming expansions or start-ups in the near future in that area, too.

So as you can hear, we think that there's been a lot of opportunities there, a lot of movements and some great growth in those wood baskets for us. And so the South, like we said, is not homogenous. But the ones we're working in, we see improvements as we go and really seeing that come home here starting on the Atlantic Coast and working its way across to the Gulf.

Still, we're seeing and fully expect to see some back and forth at our customers in areas, particularly as weather conditions dry. And that's typical to go through something, and we think there's always that natural tension between buyers and sellers, and there will be some price fluctuations. But all that said, we think we're working off a higher pricing base than we were a year ago.

As it relates to our Pacific pricing results, Mark mentioned in our prepared remarks we expect some net stumpage realizations to remain well above prior year levels. We do anticipate modestly lower weighted average prices for the remainder of the year as compared to the first quarter, and that's due to some higher mill inventories, but also a simply higher proportion of thinning volume and less favorable geographic mix. And a lot of that has to do with during the COVID disruptions and lack of truck drivers, we saw a lot of our wood that was closest to the mills being harvested and sent to the mills, and now we're going to have reach a little bit further to some of our other trucks that are further away. So we have some increased cost in that.

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

Okay. And then I wondered just kind of toggling over to increase in inflation and increase in interest rates. How do you guys think about that impact kind of across your business? And I think, it has an effect in many different dimensions.

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

Yes. I mean it certainly has a lot -- I'm sorry, Mark, this is Mark. I think it certainly has a lot of different dimensions. And certainly, we could probably talk the balance of the call on different aspects of that. I mean, I think as we think about how it relates to timberland values and transaction activities and -- or transaction activity in the timberland space, I guess I'd start by making 2 observations.

First, timberland is generally viewed as a pretty effective inflation hedge, which contributes to capital flows into the asset class in inflationary environments. Second and somewhat related to the first is that timberlands are generally valued on a long-range DCF basis using real rather than nominal discount rates.

If you look back over the last 20 or 30 years, U.S. South timberlands have pretty consistently been valued at around a 2.5% EBITDA cap rate, and that's really been irrespective of where interest rates have been at any given point in time. To some extent, I think this reflects the notion that timberland is expected to deliver a base real return plus some inflationary component of return over the long term.

10-year TIPS yield is still hovering right around 0%, while the yield on 10-year treasuries has moved up to around 3% today. So I'd argue that the real interest rate is still very low from an historical perspective, and I'd certainly say that the values we've seen in the timberland transaction market would suggest that we're seeing continued compression in discount rates for timberland assets kind of despite the inflationary environment and higher interest rate environment that we're in today.

I think it's also important to note, and you asked the question about rising prices in the South, we are seeing very strong pricing momentum and cash flow momentum in the South today. And as we talked about on the call, as Doug just talked about, our composite stumpage pricing was up 30% on a year-over-year basis relative to a year ago. So in 2021, to put that in context, in 2021, we had a record year for EBITDA in the South of about $120 million, and the midpoint of our guidance for full year 2022 is up about 25% from that. And obviously, we've gotten off to a really strong start here with Q1.

So if you assume that we're able to maintain this step change in pricing and cash flow and if you assume that, that historical cap rate relationship persists, that suggests that timberland values are poised to move up considerably, Southern timberland values in particular, certainly relative to any kind of legacy perspective that all Southern timberland trades at 18 to $2,000 per acre. So I guess that's how I'd address it as it relates to timberland values. Obviously, it touches a lot of different aspects of our business as well.

As we think about our balance sheet, as we noted in the prepared remarks, pro forma for the debt repayment early this year, our weighted average borrowing cost is roughly 2.7%, down from about 3.1% a year ago. We were able to lock in new long-term financing as well as restructure some of our existing debt on very favorable terms amid a much lower interest rate environment 12, 18 months ago.

Currently, we have no near-term maturities. Like we said on the call, our weighted average maturity has been extended to roughly 7 years. And all of our debt is fixed until at least 2024, at which time only a small portion becomes unhedged, and some even lower cost hedges kick in as well. So there really isn't much impact to our balance sheet over the near to medium term from higher interest rates. And overall, I think we're in a really good spot in terms of where the balance sheet is at kind of given the environment that we're in.

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**Operator**

Our next question will come from Mark Weintraub with Seaport Research Partners.

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**Mark Adam Weintraub** - *Seaport Research Partners - MD & Senior Research Analyst*

A couple of follow-on clarifications. One, thanks for all the details on the regionally what's going on, timber, drains and growth. So if you could just tell me, are there some areas where you operate -- or what percentage of the areas where you operate would you say that drain has caught up to growth or is very close to it?

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

Well, I'd say, Mark, if you think about the breakdown of the quartiles, we have over 60% in the top quartile, which has -- of our Southern holdings is balanced. And when it's balanced, we believe that, that ultimately translates to higher price elasticity. And it's in those regions, which are in kind of that coastal Georgia, Florida, South Carolina area where we've had very strong pricing response to rising lumber prices, and that certainly contributed.

Conversely, we have no land in the bottom quartile, where you've got growth/drain relationships in excess of 2x. And so that's really why you see our pricing gap out relative to broader south-wide averages, and it's one of the things that we've been sort of pounding that message home for a number of years now. The South is not homogenous, as Doug said. It's very localized, and we spent a lot of time trying to manage our footprint within that so that we're positioned in some of those stronger markets.

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**Mark Adam Weintraub** - *Seaport Research Partners - MD & Senior Research Analyst*

Great. Second, thanks for sort of the color on inflation more generally. How does freight show up in your -- the business? And I realize it's probably complicated. And there may be differences, situation to situation, but how much of higher pricing that we're seeing might be in part related to freight that you report, the higher prices you report?

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

Mark, just to clarify, are you talking about trucking or ocean freight?

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**Mark Adam Weintraub** - *Seaport Research Partners - MD & Senior Research Analyst*

Either/or, if you could -- I was thinking more on the trucking side. But you bring up ocean freight, how would that be playing in as well?

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

Yes. The short answer on the trucking side, Mark, is that we report stumpage. So it's net of the trucking in the South or in the U.S. And so we'll have delivered pricing that incorporates freight, but then we report that as net stumpage so that you can kind of see that on an apples-to-apples basis. And then in -- where we're involved in export sales, we are selling that on a delivered basis, so we incur the export pricing. And that's one of the reasons that you see a little more volatility out of New Zealand as you see freight rates move around a bit.

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

Mark, we try to be pretty transparent around that in the supplemental materials. I mean we report our cut and haul costs by segment as well as our delivered volume by segment. And so you can back into our average cut and haul rates. Obviously, that's going to vary kind of that mix between kind of the logging portion and the trucking portion by different regions, but it's there in aggregate. And then we also report the ocean freight cost or port and ocean freight costs where we're doing export, which at this point is all 3 of our segments.

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**Mark Adam Weintraub** - *Seaport Research Partners - MD & Senior Research Analyst*

Because I really was also including the cut and haul. So the freight you're referring to, that's just you to the customer. But there's an element -- is there an element which you are picking up that gets captured in the cut and haul that's separate?

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

No. I mean, again, in the South, we report stumpage prices, and so that's net of cut and haul. But some of that volume is delivered. So it's going to -- on a top line basis, it's going to be a higher price because it's going to reflect the increment of cut and haul. In the Pacific Northwest, we report delivered prices, but then you can kind of see the cut and haul and how that works down to a net stumpage realization.

I'd say from a cost standpoint, New Zealand is clearly the -- you have the most moving pieces there because a lot of that volume is going export and ocean freight costs, in particular, have moved up pretty considerably. And so at a very high level, I'd say we've much more than recouped those cost increases in the South and the Pacific Northwest. But in New Zealand, despite pretty high prices that have persisted for the last year, it obviously came off some in Q1. We enjoyed really high prices in most of 2021. A lot of that was eaten up by higher ocean freight costs.

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**Mark Adam Weintraub** - *Seaport Research Partners - MD & Senior Research Analyst*

Okay. And then, David, you mentioned integrated players bidding for timberland given what's going on with lumber. Is that new? Or I mean I assume those are some of -- some private players, et cetera, you're referencing. Or is that a changed dynamic? Because I haven't heard that much about integrated players being aggressive in the bidding for timberlands, but I could be wrong.

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

No, I think we've seen that over time on a fairly regular basis when you've got strong lumber cash flow. Lumber is a very cyclical business. And as you've seen, as you get to the tops of those cycles, you tend to see those players wade in and secure more timberland for the future, and that's been a pattern I've seen throughout my career. I just think right now, with the extraordinarily high lumber prices, you just have more players doing that.

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**Mark Adam Weintraub** - *Seaport Research Partners - MD & Senior Research Analyst*

Okay. And then last, it seems that the North American businesses did really well. I don't know if you'd characterize it as it's doing better than what you would have anticipated 3 months ago. I mean on the flip side, New Zealand, obviously, struggles with what's going on with China, et cetera. And so the question directionally is, how dependent is making the guidance that indeed New Zealand gets better if China gets better? Or are you actually ahead of where you would have thought in North America and it looks better at this juncture that, that provides at a minimum cushion and, frankly, upside? How would you kind of characterize those 2 drivers from where you were 3 months ago?

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

Yes, I mean all of the above. I mean I'd definitely say that we've gotten out of the gate very strong in the U.S. businesses. I'd certainly say that we're trending higher relative to our initial guidance in the South and the Pacific Northwest.

Real estate, obviously, had a very strong Q1. And like we said in the prepared remarks, we feel comfortable that we're on pace to hit the adjusted EBITDA. Real estate is obviously always lumpy, and transactions can come in and out of the pipeline. And so we never want to get too aggressive in terms of our outlook on real estate this early in the year.

In New Zealand, there are clearly still some headwinds there. I mean we had said even last quarter that we anticipated the second half of 2022 being stronger than the first half. Obviously, we've had some pretty significant COVID disruptions that have impacted our export business there, but we were relatively pleased with the Q1 result. All things considered in New Zealand, though, it will be kind of contingent upon what happens in China and how that export market evolves during the course of the year. But at the end of the day, kind of just given how these different businesses are valued, I'd trade EBITDA in New Zealand for EBITDA in the U.S. South any day because, obviously, we're getting a lot more kind of valuation leverage on those earnings.

And so we're obviously very encouraged by how we started the year, especially encouraged by the pricing momentum that we've seen in the South because that's far and away our highest multiple business from a valuation standpoint, our highest probably EBITDA to free cash flow conversion business across our portfolio. And so on balance, I think the year has gotten off to a better start than we anticipated. Obviously, we're ahead of most consensus estimates for Q1. But 1 quarter into the year, we've generally not -- we've generally been reluctant to kind of update our full year guidance and again particularly this year, given that we still see some challenges in New Zealand.

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

I'd just add that in New Zealand, We have seen domestically Q1 to Q2 prices rose with firm domestic demand and faced with this export uncertainty, so that's a good sign. And as we discussed before, kind of domestic pricing typically lags export pricing. And New Zealand back orders for lumber is estimated to be approximately 12 months. So saw millers have a real long runway ahead of them in New Zealand. So New Zealand is not all dark.

There are some good -- bright spots in New Zealand domestically, and as we talked about before, when China comes out of COVID, I think there's a real opportunity there.

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**Mark Adam Weintraub** - *Seaport Research Partners - MD & Senior Research Analyst*

Okay. Just making sure I understood that. I think you just mentioned that domestic usually lags export pricing in New Zealand. But it seems that this time around, it's leading?

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

That's correct. At this point in time, we've seen firm domestic pricing.

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**Mark Adam Weintraub** - *Seaport Research Partners - MD & Senior Research Analyst*

And any thoughts as to why this time, why we would have this reversal where it normally lags but now it seems to be leading?

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

As I mentioned, there's a major backlog of almost a year of lumber demand, and so we see that the saw millers out there are procuring as much wood as they can to meet that. Construction...

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

Very strong domestic market in New Zealand right now.

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

Very strong construction demand. A lot of underbuilt housing also, so they're seeing the same things we are in the United States and other places.

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**Operator**

Our next question will come from Buck Horne with Raymond James.

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**Buck Horne** - *Raymond James & Associates, Inc., Research Division - SVP of Equity Research*

I want to follow up. Just given the competitive bidding environment you're seeing and the capital flowing into real estate, you mentioned kind of the diversifying mix of interested parties out there. I was just wondering, are you beginning to see anyone pricing in carbon optionality into their underwriting? Or what kind of factor is carbon potential playing into some of the bids you're seeing out there?

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

Yes. Buck, I think generally, we'd say that it's not being explicitly factored into transactions. That said, I think it's contributing to some of the discount rate compression that we've seen. I think in the markets that we operate in and the people that we talk to, people are generally underwriting properties with timber valuations. I think where you're starting to see a little bit more carbon explicitly factored in is in some of the weaker markets that don't have the same optionality from a timber standpoint. But in terms of where we operate, where you've got strong timber markets, I'd say today, it's not playing a meaningful role.

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**Buck Horne** - *Raymond James & Associates, Inc., Research Division - SVP of Equity Research*

Got you. Okay. That's helpful. And just curious, not to make you speak too much out of turn on, on a competitor, but I was wondering if you've taken a look at the Weyerhaeuser tract in terms of -- and then in the Carolinas, that transaction that was recently completed? Were you guys looking at that acreage or in the process? And any color you can provide on how you viewed that deal and the transaction price it went for?

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

Yes. I won't really comment on that specifically. I will just say that we look at everything, and so we see everything that's out there and we're well aware of that. And -- but I think from a confidentiality standpoint, we'll keep our observations to ourselves.

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

What I'd add to that -- this is Mark. What I'd add to that is obviously that transaction you're referring to came at a very strong price, well over $3,000 an acre in the South, which is obviously well above any kind of average pricing that you might see. But again, I think it's very much reflective of what we've talked about considerably in the past that the U.S. South is not one big homogenous market. Different assets are in -- located in different market areas with different growth/drain dynamics, different pricing dynamics, different productivity characteristics. That property was a very high-quality property. And certainly, the price was reflective of that quality.

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**Operator**

Our next question will come from Paul Quinn with RBC Capital Markets.

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**Paul C. Quinn** - *RBC Capital Markets, Research Division - Director of Paper and Forest Products & Paper and Forest Products Analyst*

So just a question on -- overall guidance you gave for '22 last quarter had timber volumes up 9% overall. Just wondering, given the very strong lumber environment, which will probably lead to higher log pricing that we've seen in the U.S. South, whether there's any information to take those -- your guidance volumes, especially in the U.S. South and Pacific Northwest, to even higher than what you gave us last quarter?

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

I mean, look, we always try to be nimble and opportunistic as we kind of flex volume to market conditions. That said, recognize that any time -- we generally set our annual harvest targets at or around our sustainable yield, subject to any kind of age, class, variation that we have in our portfolio. And so if you pull forward volume, you've got to sort of pay that back at some point in the future. And so it's -- we feel as though we're in a inflationary timber price environment. We've obviously seen that here to start 2022. So -- but I don't think that we'd be inclined to pull forward a lot of volume because as we sit here today, I don't think we see this trend reversing necessarily. And so it may seem like a great idea today. But then when next year, we guide our volume down 5%, I'm sure that won't be well received.

And so we generally try to operate at or around that sustainable yield. And I think more often than not, we're pulling back volume with a view that we're likely to see kind of a near-term uptick in prices that we can recoup on a relatively short-term basis. But pulling forward volume, I think, is always a little bit of a challenge relative to then kind of how that reflects in a longer-term outlook.

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**Paul C. Quinn** - *RBC Capital Markets, Research Division - Director of Paper and Forest Products & Paper and Forest Products Analyst*

Okay. I hope you're right on future log prices, that they maintain a separate momentum. What about on real estate, though? Real estate markets across the timber regions have been strong for everybody. Any idea of pulling forward opportunities there that might not present themselves in '23 or '24?

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

So if you break down our real estate portfolio and first of all touch on the improved development projects that we have, I think that's an area where buyers in this market, where you have very limited new sale inventory and you've got a shortage of lots, we're seeing essentially faster absorption than we had originally underwritten in those projects. And so our challenge is to stay ahead of that by getting more land entitled ahead of that demand. So I think we have seen, in effect, a pulling forward of that demand in the improved development projects.

And then as we -- as you shift to rural HBU sales, you have a mix. And keep in mind, we have a mix of properties that we have listed and then we have unsolicited inquiries from properties that are not on the market. And we always have a blend of those 2 types of rural HBU sales. And I'd say in this market, we see -- you tend to see an uptick in unsolicited offers, and that's natural. And so we -- our team is sort of used to that ebb and flow. And there's probably an element to that that's certainly present in these markets. And you see it both in the average pricing, but also in the volume of activity.

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**Operator**

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

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**John Plimpton Babcock** - *BofA Securities, Research Division - VP*

I mean, really actually only one here, actually, I think. Just broadly, could you talk about the extent to which the Russia-Ukraine conflict has impacted trade flows, both in Europe and China? And also the extent to which there's been any sort of flow-through effect into the North American market?

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

Sure. At a really high level, you have Russia supplied a couple of billion board feet of lumber into the European market. As we see that get tightened and removed, that is more or less -- has the potential to offset a comparable 2 billion, 2.5 billion board feet of lumber exports into the U.S. So we have seen the beginnings of a slowdown in lumber exports from Europe into the U.S. as a result of that. So that ripple effect is starting to show up. We don't necessarily think you'll see a full elimination of European exports into the U.S. just because lumber prices are so strong, but that's one of the sort of second order effects that we see.

I think the other thing that you have in play is Russia is a very strong and leading supplier of lumber into the China market, and we don't anticipate that really changing. So they're going to continue to maintain that market share. Russia on their own has implemented this year a ban on log exports. This is something that they've been working on a number of years that started back in 2007 with an imposition of an export tariff. And then a few years ago, they announced the intention of cutting off all log exports. And so that's something -- and they were roughly a 10% supplier into the China market, as was Australia. So when we talk about being bullish on China longer term, you've got 2 large historical suppliers in Australia and Russia on the log side that aren't present, and so we're pretty bullish.

And another element to the question is the role that European logs and lumber have played coming into the China market. And keep in mind that much of that has been driven by the salvage volume from Europe, and that salvage volume is now in decline. They've gone through -- they're past the peak of it. And that's one of the reasons, as Doug mentioned, that you're seeing a 50% decline in volumes coming out of Europe. It's because they're on the down slope of that salvage volume. And then in addition to that, you've got the Russia-Ukraine war situation. That's providing more market opportunities in Europe. So we think we're pretty well positioned for that whether it's in the U.S. taking advantage of less supply going into China or in our New Zealand markets.

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**John Plimpton Babcock** - *BofA Securities, Research Division - VP*

Okay. And then just as a clarification point. I mean do you see any potential or risk that Russia ends up changing its policies, given kind of what's going on today? Or you think they'll largely stick to their import/export policies as it pertains to logs?

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

I mean, it's hard to say. I think generally, this has been a -- since they've been on this path since '07, I'd be surprised if they reversed it, but who knows in this global market.

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

And recognize, John, that the design of that policy was really to stimulate lumber capacity on the Russian side of the border and to kind of do the processing on that side of the border. And so obviously, that would frustrate that objective were they to lift that ban.

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**Operator**

Thank you. We are showing no further questions at this time.

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

This is Mark McHugh. I'd like to thank everybody for joining the call, and please follow up with any questions. Thank you.

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**Operator**

Thank you. That does conclude today's conference. Thank you for participating. You may disconnect at this time.

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