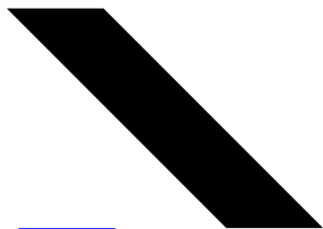


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Q2 2024 RAYONIER INC EARNINGS CALL

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- **April Tice** *Rayonier Inc - Chief Financial Officer, Senior Vice President*
- **Douglas Long** *Rayonier Inc - Executive Vice President, Chief Resource Officer*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Mark Weintraub** *Seaport Global Securities LLC - Analyst*
- **Gregory Andreopoulos** *Citi - Analyst*
- **Matthew McKellar** *RBC Capital Markets (Canada) - Analyst*
- **Buck Horne** *Raymond James & Associates, Inc. - Analyst*

PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's Second Quarter 2024 Conference Call. (Operator Instructions) Today's conference is being recorded. (Operator Instructions)

Now I will turn the meeting over to Mr. Collin Mings, Vice President, Capital Markets and Strategic Planning.

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

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

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 measures in our earnings release and supplemental materials.

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

Mark McHugh *Rayonier Inc - President, Chief Executive Officer, Director*

Thanks, Collin. Good morning, everyone. First, I'll make some high-level comments before turning it over to April Tice, Senior Vice President and Chief Financial Officer, to review our consolidated financial results. Then we'll ask Doug Long, Executive Vice President and Chief Resource Officer, to comment on our US and New Zealand timber results. And following our review of our

timber segments, April will discuss our real estate results and our outlook for the balance of the year.

Overall, we generated second quarter adjusted EBITDA of \$56 million and pro forma net income of \$4 million or \$0.02 per share. Market conditions remained challenging during the second quarter, with much of the decline in adjusted EBITDA versus the prior year period attributable to lower harvest volumes in our timber segments, reflecting generally softer demand and the deferral of some harvest activity. We expect to recoup much of this volume over the balance of the year, which should translate to stronger second half versus first half results for our timber segments collectively.

Drilling down further on our timber segment operating results, our Southern timber segment generated second quarter adjusted EBITDA of \$34 million, down \$10 million from the prior year period, as a 17% decline in harvest volumes more than offset a 2% improvement in net stumpage realizations.

In our Pacific Northwest timber segment, second quarter adjusted EBITDA of \$6 million was down \$1 million from the prior year quarter, as a 12% reduction in harvest volumes due to the Oregon sale completed late last year and lower nontimber income more than offset improved net stumpage realizations.

Turning to our New Zealand timber segment. Second quarter adjusted EBITDA of \$8 million decreased \$1 million versus the prior year quarter. The decrease in adjusted EBITDA was driven by lower net stumpage realizations and lower harvest volumes partially offset by increased carbon credit sales and favorable foreign exchange impacts.

In our real estate segment, we generated second quarter adjusted EBITDA of \$19 million, down \$1 million from the prior year period. Adjusted EBITDA in our real estate segment improved significantly versus the first quarter but was below our expectations entering the quarter due to the timing of closings and our improved development business. However, our full year transaction pipeline remains strong, and we expect that second half results in our real estate segment will be significantly higher than first half results.

Overall, as April will discuss in greater detail later in the call, we are on track to achieve full year adjusted EBITDA toward the lower end of our prior guidance range of \$290 million to \$325 million. As we indicated at the beginning of the year, our full year 2024 financial guidance excludes the potential impact of any additional asset sales as part of the \$1 billion disposition target that we announced in November.

As it relates to our disposition target, we made significant progress during the second quarter, and we currently have several large transactions that are in various stages of evaluation or negotiation. Overall, we've been encouraged by the interest received from prospective buyers as we advance our efforts to reduce leverage and capitalize on the continued disconnect between public and private values for timberland assets. We expect to be in a position to provide additional details regarding pending transactions on or before our next quarterly earnings call.

With that, let me turn it over to April for more details on our second quarter financial results.

April Tice Rayonier Inc - Chief Financial Officer, Senior Vice President

Thanks, Mark. Moving to the financial highlights on page 5 of the supplement. Sales for the second quarter totaled \$174 million, while operating income was \$12 million, and net income attributable to Rayonier was \$2 million or \$0.01 per share. On a pro forma basis, net income was \$4 million or \$0.02 per share. Pro forma items in the second quarter included \$1.1 million of net costs associated with legal settlements and \$700,000 of costs related to our disposition plans.

Adjusted EBITDA was \$56 million in the second quarter, down from \$69 million in the prior year period. 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 first half of the year was \$60 million versus \$63 million in the prior year period. The decrease was driven by lower adjusted EBITDA, partially offset by lower net cash interest paid. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on page 8 of the financial supplement.

We closed the second quarter with \$142 million of cash and roughly \$1.4 billion of debt. Our net debt to trailing 12 months adjusted EBITDA was approximately 4.3 times. At quarter end, our weighted average cost of debt was approximately 2.8% and the weighted average maturity of our debt portfolio was approximately five years. With no significant debt maturities until 2026. Our net debt to enterprise value based on our closing stock price at the end of the quarter was 22%.

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

Douglas Long Rayonier Inc - Executive Vice President, Chief Resource Officer

Thanks, April. Let's start on page 9 with Southern timber segment. Adjusted EBITDA in the second quarter of \$34 million was \$10 million or 22% below the prior year quarter driven by lower volumes and higher costs partially offset by slightly higher net stumpage realizations. Total harvest volumes fell 17% versus a strong prior year quarter due to weather-related constraints in the Gulf region as well as weaker demand from sawmills. Meanwhile, non-timber revenue decreased 5% versus the prior year period as continued growth in our land-based solutions business was more than offset by lower pipeline easement revenues.

Average sawlog stumpage pricing was \$29 per ton, a 1% increase compared to the prior year period due to improved chip-n-saw pricing in most of our markets. Pulpwood net stumpage pricing was 10% higher than the prior year quarter at roughly \$17 per ton.

Overall, weighted average stumpage prices in the second quarter increased 2% versus the prior quarter to roughly \$22 per ton. Improved end market demand and reduced residual sawmill chip availability translated into improved pulpwood pricing across most of our markets in the US South. Market pulp prices have improved over the past year, and containerboard operating rates continue to rebound following the inventory destocking cycle that weighed heavily on containerboard demand in 2023.

Turning to grade markets. Log demand softened throughout the second quarter due to continued weakness in southern yellow pine lumber demand, as well as drier weather across our Atlantic operating areas. Encouragingly, we have seen indications that the second quarter may mark the low point in pricing.

Additionally, over the past few months, we've seen a narrowing of the price discount between Southern Yellow Pine lumber and other species. However, the overall demand picture for lumber remains challenged by continued softness in housing and repair and remodel markets.

Lumber producers are responding by reducing production with several mills in the region, opting to reduce output in response to current market conditions. In turn, we are seeing less demand for sawtimber as mills adjust their operations over the near term.

That said, the relative strength and diversity of our US South footprint remains a key competitive advantage as we navigate these headwinds. We anticipate a potential rebound in end market demand following expected interest rate cuts later this year. When this occurs, we believe that our strategic positioning will allow us to capitalize on stronger log pricing as lumber production ramps up again in the US South.

Moving to our Pacific Northwest timber segment on page 10. Adjusted EBITDA of \$6 million was \$1 million below the prior year quarter. The year-over-year decrease was primarily driven by lower harvest volumes and lower non-timber revenue, partially offset by improved net stumpage realizations. Volumes decreased 12% in the second quarter as compared to the prior year period, reflecting the large disposition we completed in Oregon during late 2023.

At \$91 per ton, average delivered domestic sawlog pricing in the second quarter decreased 7% in the prior year period due to a combination of weaker demand from domestic lumber mills, a lower proportion of Douglas fir volumes and reduced export market tension. Meanwhile, at \$30 per ton, pulpwood pricing remained fairly stable during the quarter but was down 17% versus a strong prior year quarter that benefited from favorable supply-demand dynamics for pulpwood in the region. Overall, despite lower delivered pricing, net stumpage realizations increased 10% due to favorable pricing on stumpage sales and lower per ton cut and haul costs on delivered volume.

The Pacific Northwest log market continued to face headwinds during the second quarter from both challenging domestic lumber markets and reduced demand for log exports. Similar to the US South, sawmills in the region are responding to these market conditions by reducing lumber production to better align with current demand. Still, our pricing has been fairly resilient thus far in 2024. We believe that the threat of potential supply constraints as we enter the peak of fire season as well as the recent uptick in lumber prices should translate into fairly stable pricing with some modest upside potential as we move through the balance of the year.

Moving to New Zealand. Page 11 shows results and key operating metrics for our New Zealand timber segment. Adjusted EBITDA in the second quarter of \$8 million was \$1 million below the prior year quarter. The decrease in adjusted EBITDA compared to the prior year period was primarily driven by a 12% decrease in harvest volumes and 7% lower weighted average delivered log prices, partially offset by higher carbon credit sales and favorable foreign exchange impacts.

Average delivered export sawtimber prices of \$102 per ton declined 2% compared to the prior year quarter as demand continued to be constrained by ongoing challenges in China's property sector. Offtake from Chinese ports remain subdued, reflecting weak construction demand. After rebounding seasonally following the Lunar New Year, daily port offtake has fallen back to approximately 50,000 to 60,000 cubic meters over the past few months. Positively though, inventory levels have generally adjusted to the weaker

demand environment.

At the end of July, softwood log inventories at Chinese ports stood at approximately 3.3 million cubic meters, down roughly 10% year-over-year. The relatively lean log inventories in China give us optimism that modestly more favorable pricing conditions will materialize as we move through the balance of the year.

Shifting to the New Zealand domestic market. Second quarter average delivered sawlog prices fell 6% from the prior year period or 4%, including foreign exchange impacts. The decline in pricing reflects soft demand, the local construction market amid a higher interest rate environment as well as reduced competition from the export market.

Second quarter non-timber income in New Zealand of \$5 million increased \$4 million relative to the prior year period. The year-over-year increase reflects higher carbon credit sales in the current year period as we temporarily suspended our sales program in the first half of 2023 amid significant market volatility. We anticipate that we remain active in the New Zealand carbon market over the course of 2024 as pricing remains healthy from a historical standpoint.

Lastly, in our trading segment, we registered a breakeven result in the second 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 April to cover our real estate results.

April Tice Rayonier Inc - Chief Financial Officer, Senior Vice President

Thanks, Doug. As detailed on page 12, the contribution from our real estate segment during the second quarter was considerably higher than the first quarter, fueled in large part by a nonstrategic timberland sale in New Zealand. Real estate revenue totaled \$31 million on 14,600 acres sold at an average price of \$1,750 per acre. Real estate segment adjusted EBITDA in the second quarter was \$19 million.

Drilling down, sales in the improved development category totaled \$2.6 million. In our Heartwood development project south of Savannah, Georgia, sales consisted of two residential pods for \$1.6 million or \$34,000 per acre. In our Wildlight development project north of Jacksonville, Florida, we sold an 8-acre commercial parcel for \$1 million or \$125,000 per acre.

Despite the elevated interest rate environment, we continue to see healthy interest from homebuilders as both our projects continue to benefit from favorable migration patterns as well as relatively affordable price points. Interest from developers for nonresidential end uses remain stable, but some deals are taking longer to materialize in the current financing environment. While we expect that the timing of land sales will remain lumpy quarter-to-quarter, as we detailed in our Investor Day in February, we continue to see a growing pipeline of opportunities in our development business.

Turning to our rural category. Second quarter sales totaled \$7 million, consisting of approximately 1,400 acres at an average price of roughly \$5,200 per acre. While elevated interest rates continue to impact the willingness of some buyers to transact, the overall demand and pricing for rural properties remains favorable. As discussed last quarter, we have seen growing interest among conservation and impact-oriented buyers looking to place capital. We continue to expect a larger contribution from these sales as we move through the balance of the year.

Lastly, during the second quarter, we also closed on a nonstrategic timberland sale in New Zealand. The transaction consisted of approximately 13,000 acres for roughly \$16 million or \$1,200 per acre. The transaction included several geographically isolated parcels with above average production costs, a relatively young age class distribution, and below-average operability, with only about 50% of the total acres classified as plantable. The sale price per acre reflects the below average quality of this asset and is not indicative of the overall value of our New Zealand timberland portfolio. Notably, this transaction was initiated mid last year, it is not related to the review of our strategic alternatives for our New Zealand joint venture interest.

Now moving on to the outlook for the balance of 2024. Based on our first half results and our expectations for the remainder of the year, we now expect that full year adjusted EBITDA will be toward the lower end of our prior guidance range of \$290 million to \$325 million.

Further, we now expect pro forma EPS to be modestly below the low end of prior guidance. As a reminder, our guidance excludes the potential impact from any additional asset sales as part of our previously announced \$1 billion disposition target.

With respect to our individual segments, in our Southern timber segment, we expect full year harvest volumes toward the lower end of prior guidance as we look to opportunistically flex our volume in response to market conditions. Further, we anticipate that pine

stumpage realizations will be lower in the second half of the year as compared to the first half due to a less favorable geographic mix, lower sawlog prices and a relatively higher proportion of thinning volume. Lastly, we remain encouraged by the momentum of our land-based solutions business and continue to expect higher non-timber income for full year 2024 relative to full year 2023. Overall, we anticipate full year Southern timber adjusted EBITDA toward the lower end of our prior guidance range.

In our Pacific Northwest timber segment, we expect to achieve full year volumes slightly below our prior guidance. As Doug discussed, pricing conditions have been relatively stable thus far in 2024, but our ability to increase delivered log prices has been constrained by challenging domestic and export market conditions. While we believe there is some modest upside potential as we move through the balance of the year, we have tempered our pricing expectations as compared to earlier in the year. Overall, we expect full year Pacific Northwest timber adjusted EBITDA towards the lower end of our prior guidance range.

In our New Zealand timber segment, we are on track to achieve our full year volume guidance as we anticipate relatively higher harvest volumes during the second half of the year as compared to the first half. Further, we continue to expect that full year domestic and export sawtimber pricing will improve modestly relative to the full year pricing achieved in 2023. Despite improved pricing conditions, we expect full year New Zealand timber adjusted EBITDA to fall slightly below our prior year guidance range due to lower carbon sales, softer export markets, and elevated shipping costs.

In our real estate segment, we continue to see healthy interest in our development projects and rural properties. We continue to anticipate full year adjusted EBITDA within our prior guidance range with transaction activity heavily concentrated in the fourth quarter.

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

Mark McHugh Rayonier Inc - President, Chief Executive Officer, Director

Thanks, April. As I reflect on the first half of the year, I'm proud of how our team has continued to navigate challenging operating conditions with an unwavering focus on making decisions in the best long-term interest of Rayonier and its shareholders. To this end, we elected to strategically defer some harvest in more challenged markets to preserve value in the face of ongoing headwinds posed by soft domestic lumber markets and lower export market demand.

Despite the headwinds facing sawtimber markets this year, we are encouraged by the sustained improvement in pulp mill operating rates across our US South footprint and the corresponding gains in pulpwood pricing that we've been able to capture. The prospect of rate cuts later this year, coupled with continued low log inventories in China, give us additional reasons for optimism over the balance of the year.

On the real estate front, we've been pleased by the continued demand for both rural and development properties despite the higher interest rate environment. As previously discussed, we expect a significantly stronger contribution from our real estate segment during the second half of the year versus the first half. We also believe that more favorable financing conditions could further bolster the already healthy demand we're seeing across our real estate categories.

Throughout the first half of the year, we've also continued to advance important strategic initiatives. On the land-based solutions front, our team is energized by the pipeline of opportunities we are pursuing with high-quality counterparties. We continue to believe that our land base leaves us uniquely well positioned to grow these revenue streams over time.

And as I discussed earlier, we are pleased with the progress we've made towards executing our \$1 billion disposition target. There remains a strong bid for timberland assets in the private market, and we continue to advance a variety of options to achieve this target. We look forward to sharing more details regarding our disposition efforts in the coming months.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Weintraub, Seaport Research Partners.

Mark Weintraub Seaport Global Securities LLC - Analyst

Two quick questions. One, when you originally announced the disposition plan you had suggested an 18-month time frame, is that still the right duration to be thinking about? Or any update there?

Hey Mark, this is Mark. Good morning. Yeah, that is still the right time frame to be thinking of. As we said, in the prepared remarks as well as in the release, we've made quite a bit of progress here in the last several months, and we look forward to sharing more details on or before our next earnings call.

Okay. Appreciate that. And then any additional specifics in terms of things that might have moved forward on land-based solutions? You made some general comments. But were there any updates that you can give us in terms of things concretely seeing done during the quarter?

Douglas Long Rayonier Inc - Executive Vice President, Chief Resource Officer

Sure. Good morning. This is Doug. On the land-based solutions front, our team continues to advance a range of opportunities with high-quality counterparts as we mentioned before.

But to your point, recently, we've added another 5,000 acres of executed carbon capture storage leases. And as we discussed on our last call, we're still well on the way to achieving our year-end goals of having over 70,000 acres under lease for carbon capture storage and targeting over 50,000 acres under options for solar. So, we continue to believe our portfolio is uniquely well positioned to provide these solutions as many large corporations are setting ambitious sustainability goals, including those commits to reduce their carbon footprint and increase the use of renewable energy. So, we did have some success in the current quarter and are seeing great progress we move forward for the rest of the year.

Mark Weintraub Seaport Global Securities LLC - Analyst

Great. And in curiosity, back in February, you provided some targets. I guess we're six months forward from that. How do you feel about those targets today versus how you felt about them back in February?

Douglas Long Rayonier Inc - Executive Vice President, Chief Resource Officer

Yeah, I'd say we still feel very good about those targets. And if anything else, we're seeing probably more interest than we had in February for these type of opportunities.

Operator

Anthony Pettinari, Citi.

Gregory Andreopoulos Citi - Analyst

Good morning. This is Gregory, on for Anthony. First, I guess, on to timberlands. Can you just comment on what you saw across your various subregions in the second quarter and maybe what's implied in the full year guidance?

And then I'm wondering also if there are any disparities locally in the South, are the main drivers there kind of sawmill operating rates? Or are there more kind of nuanced drivers of prices regionally? Would love to hear your thoughts there.

Douglas Long Rayonier Inc - Executive Vice President, Chief Resource Officer

Sure. This is Doug again. I'll be happy to start there. Yeah. I think one thing that's important is to keep in mind that we do a combination of stumpage sales and delivered sales, and we don't have exact control in the quarter when a stumpage track is going

to be harvested. And those buyers typically have a year to harvest, and we'll start selling towards the end of Q4 of the prior year and the beginning of the current year. And so to the extent there's market softness or weather issues such as we saw in Texas, Louisiana, there can be some short-term timing differences.

And to your point, I think it's worth noting that for the first half of the year, the southern portion of our Southwest resource unit, so kind of the Texas, Louisiana along the Gulf Coast there received more rain than the historical yearly average. So, in the first six months, they received over a year's worth of rain. And if you saw any of the news stories, you probably saw the flooding in Houston, things like that, so you can appreciate that. So, we did see some reductions in harvest in those areas where it's just too wet to harvest, but we've seen improvements there.

And plus, given the market conditions, we've been pretty deliberate about what we brought to market, and we didn't look to chase volume. So that said, yeah after a challenging kind of second quarter and the stumpage our removals are ahead of forecast for July across all of our southern units. So, we've seen some improvements across there as we move forward.

Gregory Andreopoulos Citi - Analyst

And then maybe if I could just have one follow-up on carbon credits. So based on the data I'm seeing, it looks like New Zealand carbon credits kind of leveled off, they dropped off pretty sharply in March, April, and they've kind of leveled off since then. So, I'm wondering if you can kind of put some context around what's kind of allowed prices to stabilize there, whether demand has come back a little bit or supply has tightened.

And then can you -- for your New Zealand credits that you have on the balance sheet, are these able to be sold into the US market at all? I'm only asking because it seems like the credits on your balance sheet are pretty high quality, pretty rigorously tested. And Bloomberg put out the headline recently about 32% of all credits failing this approval test. So, in my mind, you may be able to get better pricing in the US market, if good credits are commanding premiums. Or is that not the right way to think about it?

April Tice Rayonier Inc - Chief Financial Officer, Senior Vice President

Hi Greg, this is April. I'll take that. So, I'll just take the first half of your question, and then I'll turn it over to Doug to follow up. So, as we detailed in our supplement, we sold about \$4.4 million worth of carbon credits in New Zealand in the second quarter, and that was up from \$400,000 in Q2 of 2023. So, as we talked about and Doug said in our prepared remarks, last year, we deferred our New Zealand sales early in 2023 because there was such volatility in the market, but we'll resume sales later in the year. So that's what we're doing now. We're being opportunistic about how we're selling them in New Zealand.

As far as like the stability in the market, so overall, the regulatory backdrop has been stabilized. It's been that way for -- it was last quarter, this quarter, it continued. The government has indicated that they're not really contemplating any significant changes to the ETS in the near term. What drove some price drop earlier in the year was that there was an auction in March and the, failed to reach the full subscription. So, the pricing pretty much backdropped off at that point. But overall, the pricing is still strong from a historical perspective. It's leaning around 50 to 55 NZD, which is pretty strong. And so we're continuing to be active in that market.

Douglas Long Rayonier Inc - Executive Vice President, Chief Resource Officer

Yes. And I'll just address your question a little more around the quality of markets and things like that. So, as we discussed at our Investor Day, we continue to be very deliberate in how we're thinking about moving forward in that voluntary carbon market given our discussions with potential buyers, who are very focused on those high-quality carbon credits. And we see that market really evolving towards that higher quality as you mentioned, that given our high timber EBITDA, it just hasn't made sense for us yet to move forward.

That said, we're very encouraged by the progress of the Integrity Council for Voluntary Carbon Markets, ICVCM, and their common core principles accreditation process. And what that's going to do is create basically approved credit that from our discussions with customers is something that they really believe will be recognized globally as a benchmark for high-quality carbon credits, ensuring that they represent real, verifiable and additional emission reductions. So, we think this is a major milestone that we've really been waiting on and paves the way for verified high-quality credits to come into this market in the near future and clear out the less meaningful ones that are really lower quality and, therefore, lower price from supply. So really over that longer time horizon, we still

believe demand will outpace supply approaching 2030 as people focus on their net zero commitments.

And really beyond that, and so we're positioning ourselves to support that growth and demand and meaningfully contribute to this project with pursuing pilot projects that incorporate these latest improvements with the core carbon principles. So we still think this market has some time to develop and that pricing has room to run and we're being patient.

Yeah. As it relates to just the ability to monetize New Zealand credits in the voluntary market in the US, recognize those are two different markets, and those credits are not fungible. There has been a lot of press about some of the quality issues with credits that have been issued historically in the voluntary carbon market, whereas obviously a regulated market, a credit is a credit is a credit. So I think as we see better standards evolve in the voluntary market, you'd like to get to a point where they are considered more or less fungible, but we're certainly not there yet.

Operator

Matthew McKellar, RBC Capital Markets.

Matthew McKellar RBC Capital Markets (Canada) - Analyst

Could you share how you're thinking about the pace of lot absorption and development at Wildlight over the next year or so? That community has built a lot of momentum over the past few years, and you mentioned good interest, but just wondering if you see any signs of caution from builders in the area?

Mark McHugh Rayonier Inc - President, Chief Executive Officer, Director

I'd say that the single-family homebuilding market has held up reasonably well. I mean that's -- there's been a lot of -- it's been pretty well publicized in terms of how that market has held up in the face of higher interest rates. The benefit of hindsight, we now know that a lot of existing homeowners are essentially locked into low-rate mortgages, which has really dried up supply in the resale market for -- so much of that demand for homes has transitioned into the new home construction market.

And particularly large national homebuilders have been very successful in essentially buying down rates in order to further stimulate demand in that market. I think given the demographics of our projects and Wildlight and Heartwood as well as the relatively affordable price point when you look at those markets relative to other areas of the state or even more broadly the US. We do think that those areas have remained very attractive. And we've certainly transitioned in terms of scale of that project, we've certainly transitioned more towards dealing with large national homebuilders.

And so I think that -- look, the market is certainly more cautious today than it was a couple of years ago. But overall, we still feel pretty good about the pace of absorption and the level of interest that we're seeing in those markets.

Matthew McKellar RBC Capital Markets (Canada) - Analyst

Okay. And then for Q3 specifically, do you expect any impact to your business, whether it be disruption to harvest operations or otherwise in the south with some of the heavy rain from the Debbie tropical storm? Or maybe even conversely, would you expect to potentially benefit in some areas, given maybe better road infrastructure versus other owners of timberland in the area?

Douglas Long Rayonier Inc - Executive Vice President, Chief Resource Officer

Yes, sure. This is Doug. I'll be happy to answer that question. Yeah. I mean in localized areas, obviously, we've seen rainfall from 7 inches up to well over a foot. So, it's going to have a short-term impact on being able to produce logs, but at the same point in time, it's reducing lumber capacity, as you say, and the pulp mills and things like that. So short term, we do believe that there's a slowdown in removals, but we're already moving crews around.

And to your point, our infrastructure investments -- so we do think there's an opportunity for landowners like ourselves who have made those investments to recognize increased volume into the mills as well as potentially some pricing comes from that. So, it is a

short term, but the long term, we don't think there's going to be a major impact there. And with our geographic diversity, it impacts kind of our coastal Florida, Georgia, but the rest of our operations, it's had no impact on it.

Matthew McKellar RBC Capital Markets (Canada) - Analyst

Okay. Great. So then last one for me. Just touching on the log exports out of the Pacific Northwest. Have you seen any change in market conditions there? Any additional tension in the market compared to what you saw in Q2?

Douglas Long Rayonier Inc - Executive Vice President, Chief Resource Officer

I would say it's pretty much the same. So, we're still -- the opportunities for additional exports into China have pretty much remained the same quarter-over-quarter, a little bit of improvement to Japan from what we've seen, but nothing significant to change.

Operator

Buck Horne, Raymond James.

Buck Horne Raymond James & Associates, Inc. - Analyst

I just kind of want to follow up on the kind of the weather update situation with the ground, post-Debby. I guess my follow-up would be, if we continue to have a very busy storm season across the Southeast, it feels like your guidance is somewhat dependent on really ramping up harvest activity throughout the third and fourth quarters to kind of recover for the 2Q deferrals. Just wondering what's the flexibility, I guess, across the region if we continue to have a fairly active storm season across the region.

Mark McHugh Rayonier Inc - President, Chief Executive Officer, Director

Hey Buck, this is Mark. And I'll maybe start and then kick it over to Doug for any additional detail. But recognize as well, when you mentioned that the guidance was contingent upon higher harvest levels in the back half of the year, that's really more around the Pacific Northwest and New Zealand and less so in the South. We did have a very large harvest volume in Q1 in the US South. We had actually guided towards lower harvest volumes for the balance of the year in the US South in particular. So that commentary around recouping some volume over the balance of the year was really more specific to New Zealand and the Pacific Northwest, more so than the South. But certainly, we could have some impacts to removal activity given the storms that we've seen.

But again, recognize that can also be a double-edged sword in the sense that when volume is constricted due to wet weather events and due to the inoperability of timber harvest tracks, we tend to see some pricing tension develop. And we Rayonier as a large owner of timberlands and a well-invested road infrastructure often stand to benefit from that in the sense that we have better access to our lands than perhaps some of the nonindustrial private landowners. And so again, there are some puts and takes there. But I don't know, Doug, if you'd add anything to that.

Douglas Long Rayonier Inc - Executive Vice President, Chief Resource Officer

Mark, I think you did a great job with that. I would just reiterate to your point that typically, if we've seen our operations constrained that typically means that everyone else's has been constrained to a point where pricing often times offsets the impact of reduced risk volumes pretty much to what you said. Nothing more to add.

Buck Horne Raymond James & Associates, Inc. - Analyst

Got you. Thanks guys - that's really helpful color. And then I guess related to, I guess, is kind of a combination question. But it's related to the dividend policy and dividend sustainability here, cash flow trends seem to be trending well below the payout schedule at the moment. With the dispositions that are planned for the back half of this year or into next year, what's the thought process

around near-term dividend sustainability or addressing the payout ratio sometime in the near future. Kind of what's the outlook and what's the flexibility on the balance sheet?

Mark McHugh Rayonier Inc - President, Chief Executive Officer, Director

Yeah. I mean as it relates to this year, Buck, keep in mind, we don't manage our dividend funding or really focus on the payout ratio on a quarter-by-quarter basis. Rather, we're really focused on long-term dividend sustainability and growth. Clearly, this year has gotten off to a slower start than we anticipated. But as we discussed during the prepared remarks, some of this is really timing related with respect to harvest activity and real estate closings.

It's also worth noting that even with the slower start to the year, our year-to-date CAD is only about \$4 million short of where we were last year at this point in time. And that's largely due to the paydown of some of our higher cost debt late last year with the proceeds of the Oregon disposition. Of course, right now, we're really focused on further advancing our asset disposition target, which we continue to believe will be accretive to CAD on a per share basis. We also expect the second half cash flow will be significantly higher than first half cash flow.

When you put all these factors together, we're still targeting a dividend that is fully funded this year, at least very close to it. And going forward, as we see the run rate impact of our disposition and deleveraging plan take effect, we expect the dividend funding should further improve from there.

Operator

I am showing no further questions at this time. I will turn the conference back to Collin.

Collin Mings Rayonier Inc - Vice President - Capital Markets and Strategic Planning

This is Collin Mings. I'd like to thank everybody for joining us. Please contact us with any follow-up questions.

Operator

Thank you for your participation. Participants, you may disconnect at this time.

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