

# 1Q 2015 Earnings Release Potlatch Corporation

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President and Chief Operating Officer

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Vice President and Chief Financial Officer



April 22, 2015



# Forward-Looking Statements & Non-GAAP Measures

## FORWARD-LOOKING STATEMENTS

This presentation contains certain forward-looking statements within the meaning of the Private Litigation Reform Act of 1995 as amended, including without limitation, statements about our expectations regarding the company's financial performance in the second quarter and second half of 2015; our outlook for future operating conditions in sawlog, pulpwood, lumber, plywood and real estate markets; recovery of the U.S. housing market; expected 2015 housing starts; demand and pricing for sawlogs, pulpwood, lumber, plywood and residuals in the second quarter of 2015 and for the full year; expected second quarter 2015 harvest volumes in the North and South; expected pulpwood/sawlog mix in the North and South in the second quarter of 2015; capital investment in wood products business in 2015; expected progress on Wood Products capital projects; expected downtime at our mills in the second quarter of 2015 due to capital projects; our intent to continue to have mill performance in the first quartile of margin performance; expected real estate sales in the second quarter of 2015; expected earnings and cash flows in our Resource, Wood Products and Real Estate segments in the second quarter of 2015; expected corporate and interest expense in the second quarter of 2015; expected second quarter 2015 lumber shipments and inventories; expected performance of our Resource, Wood Products and Real Estate segments in second quarter of 2015; the company's balance sheet; liquidity, cash flows and dividend levels; long-term debt maturities; expected repayment of debt in 2015 from cash from operations; consolidated tax rate in the second quarter 2015 and for the year; and related matters. These forward-looking statements are based on current expectations, estimates, assumptions and projections that are subject to change, and actual results may differ materially from the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, changes in timberland values; changes in timber harvest levels on our lands; changes in timber prices; changes in lumber and plywood prices; changes in policy regarding governmental timber sales; changes in the United States and international economies; changes in the level of construction, repair and remodel activity; changes in tariffs, quotas and trade agreements involving wood products; changes in demand for forest products; changes in production and production capacity in the forest products industry; competitive pricing pressures for our products; unanticipated manufacturing disruptions; changes in general and industry-specific environmental laws and regulations; unforeseen environmental liabilities or expenditures; weather conditions; pest infestation; changes in raw material, diesel, other fuel and other costs; the ability to satisfy complex rules in order to remain qualified as a REIT; changes in tax laws that could reduce the benefits associated with REIT status; and other risks and uncertainties described from time to time in our public filings with the Securities and Exchange Commission. These forward-looking statements are made as of the date of this presentation and we do not undertake to update any forward-looking statements.

## NON-GAAP MEASURES

This presentation presents non-U.S. GAAP financial information. A reconciliation of those numbers to U.S. GAAP is included in this presentation which is available on the company's website at [www.potlatchcorp.com](http://www.potlatchcorp.com).



# 1Q 2015: Total Company Summary

(unaudited, \$ in millions, except per share amounts)

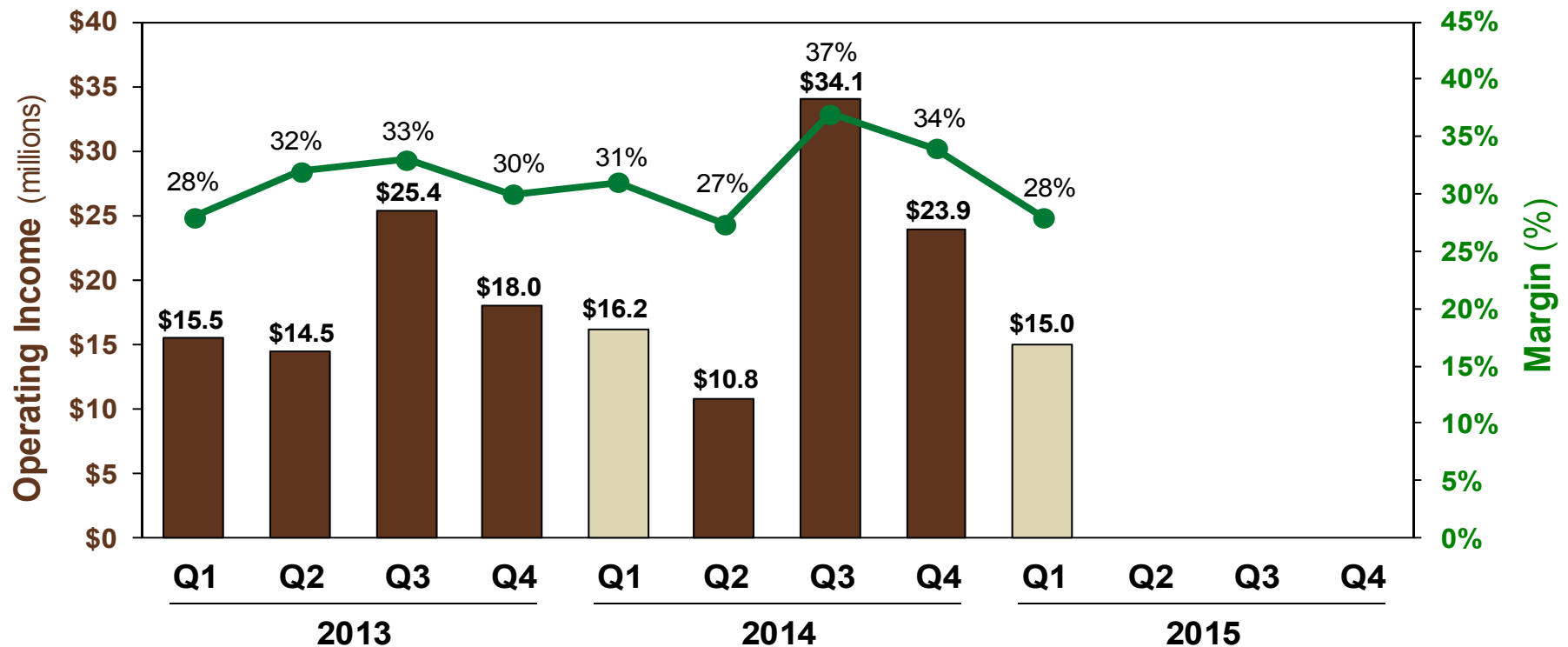
Unaudited, \$ in millions

	2014				2015
	Q1	Q2	Q3	Q4	Q1
<b><u>Operating income</u></b>					
Resource	\$ 16.2	\$ 10.8	\$ 34.1	\$ 23.9	\$ 15.0
Wood Products	12.7	14.9	15.8	9.1	3.5
Real Estate	8.3	12.4	4.6	1.6	1.6
Eliminations and adjustments	0.8	0.8	(2.0)	0.2	3.0
Total operating income	38.0	38.9	52.5	34.8	23.1
Corporate	(6.7)	(9.2)	(7.6)	(8.2)	(9.0)
Interest expense, net	(5.5)	(5.5)	(5.5)	(6.4)	(8.1)
Income before taxes	25.8	24.2	39.4	20.2	6.0
Income tax provision	(5.5)	(7.9)	(6.2)	(0.1)	(0.3)
<b>Net income</b>	<b>\$ 20.3</b>	<b>\$ 16.3</b>	<b>\$ 33.2</b>	<b>\$ 20.1</b>	<b>\$ 5.7</b>
<b>Diluted earnings per share</b>	<b>\$ 0.50</b>	<b>\$ 0.40</b>	<b>\$ 0.81</b>	<b>\$ 0.49</b>	<b>\$ 0.14</b>
<b>Distributions per share</b>	<b>\$ 0.35</b>	<b>\$ 0.35</b>	<b>\$ 0.35</b>	<b>\$ 0.375</b>	<b>\$ 0.375</b>
<b>EBITDDA<sup>(1)</sup></b>	<b>\$ 41.7</b>	<b>\$ 36.5</b>	<b>\$ 53.3</b>	<b>\$ 35.0</b>	<b>\$ 22.6</b>

(1) Non-GAAP measure. See slide 15 for reconciliation.

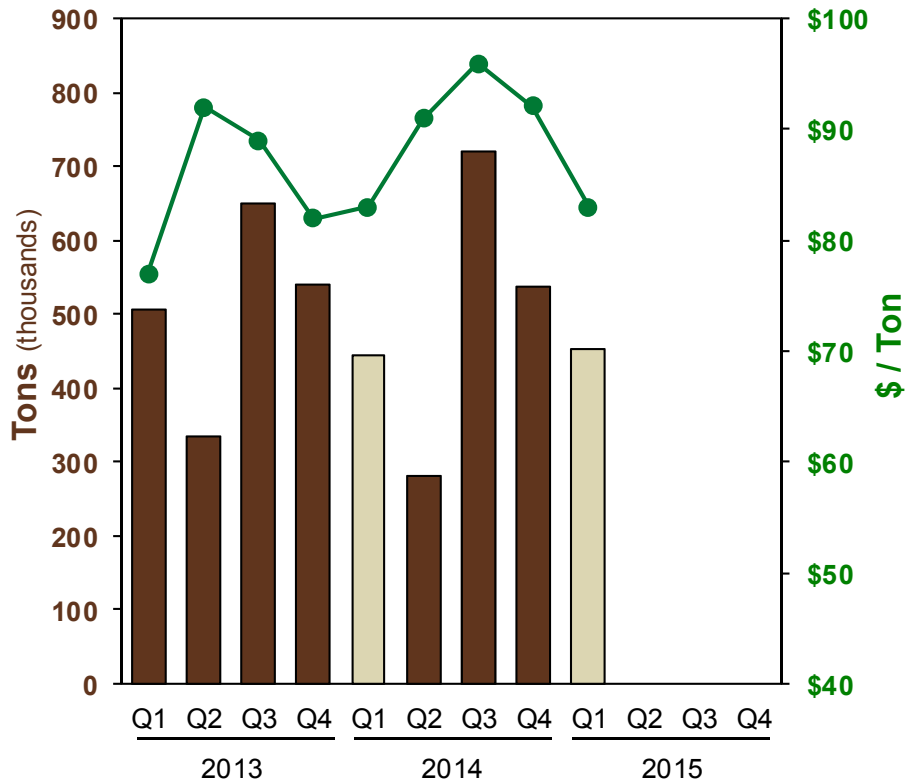
## RESOURCE: Segment Summary

- Northern sawlog prices were 4% lower on a dimensional (mbf) basis; the reported price based on tons is also affected by seasonally wetter logs
- Southern sawlog price declined \$7 per ton due primarily to lower mix of hardwood; pine sawlog price remains relatively flat
- Harvest volumes were seasonally lower in both regions

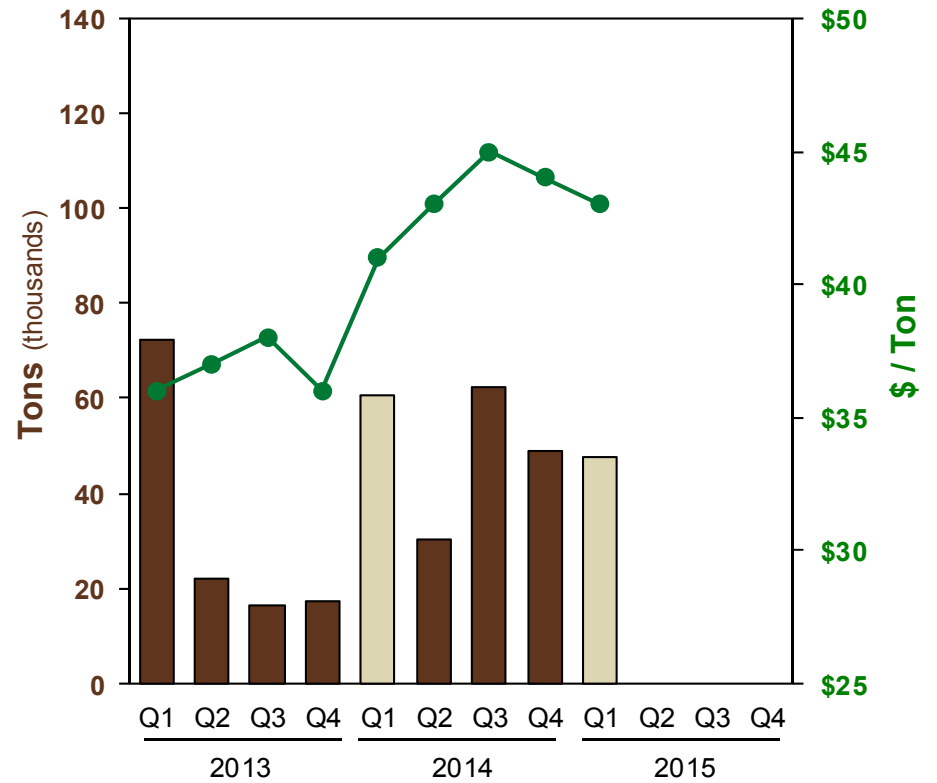


# RESOURCE: Northern Region – Volume and Pricing

## Sawlog



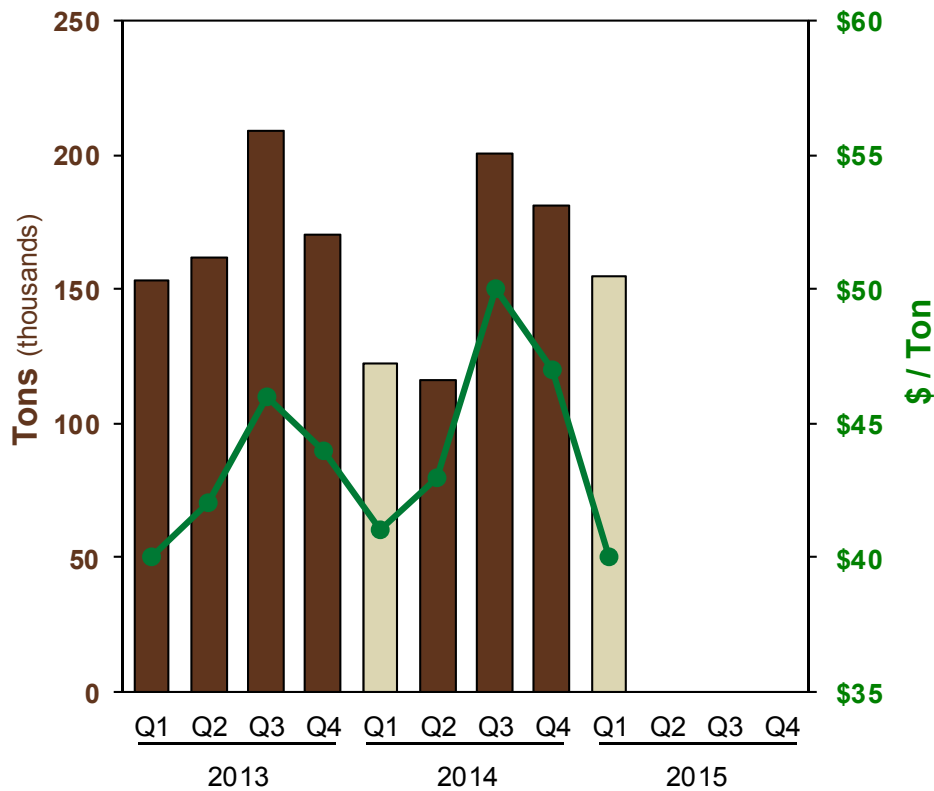
## Pulpwood



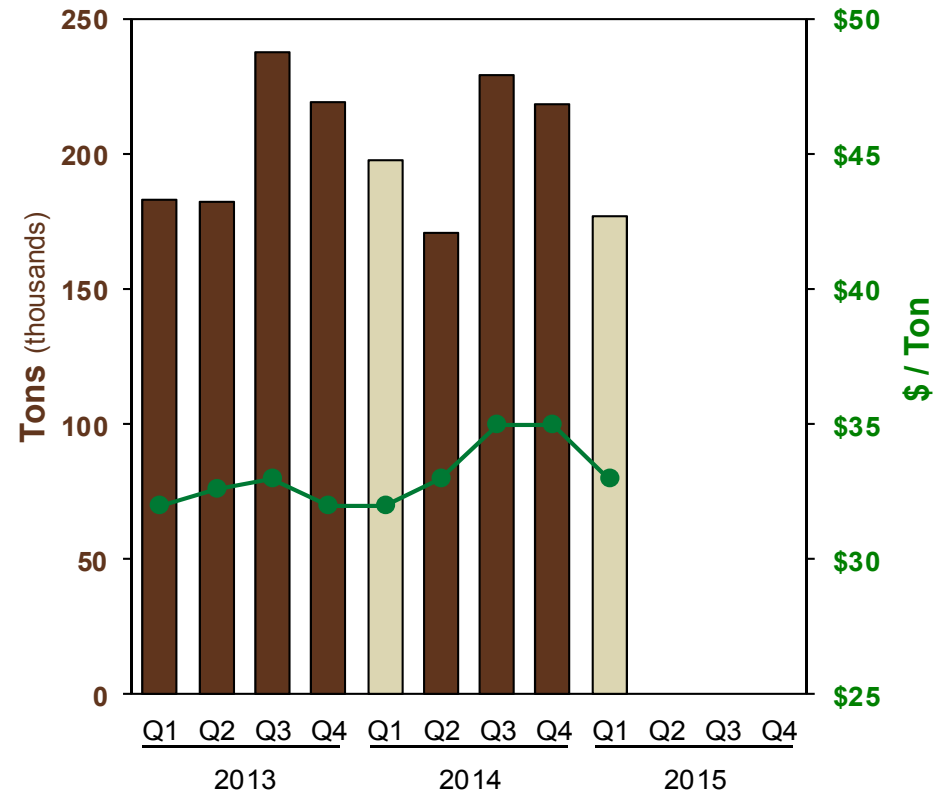
Note: Volumes include tonnage harvested from company-owned fee land, while pricing data includes revenue generated from both company-owned fee land and non-fee stumpage purchased from third parties.

# RESOURCE: Southern Region – Volume and Pricing

## Sawlog



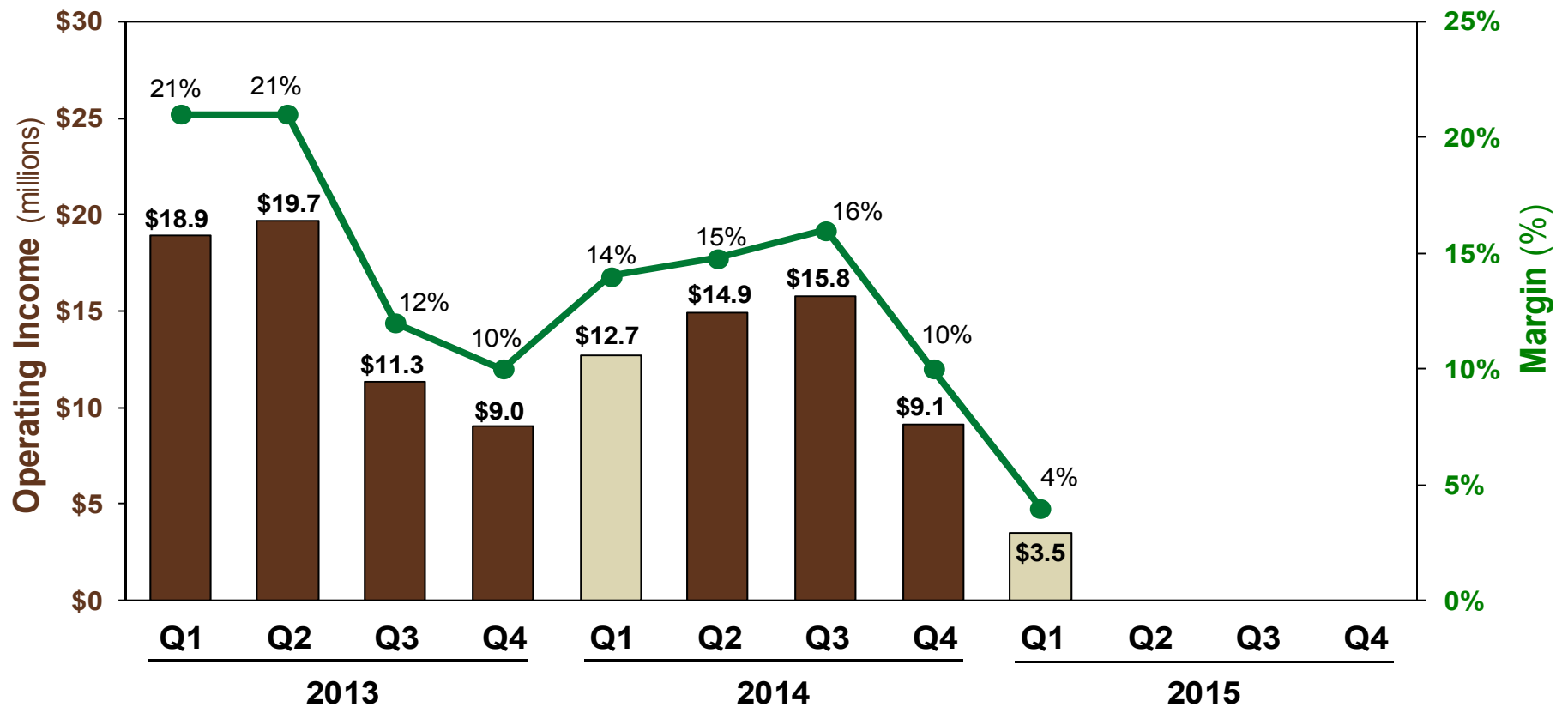
## Pulpwood



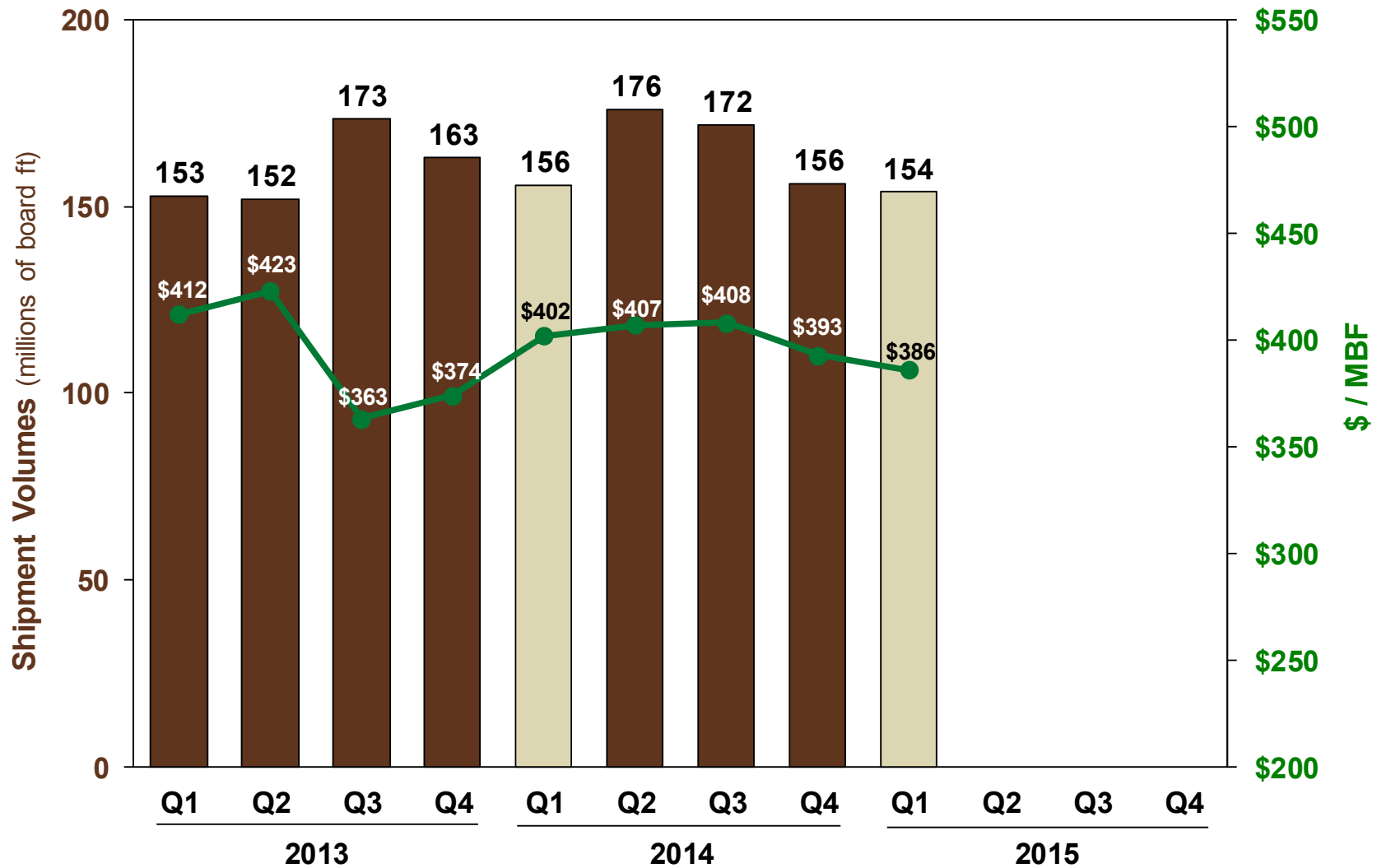
Note: Volumes include tonnage harvested from company-owned fee land, while pricing data includes revenue generated from both company-owned fee land and non-fee stumpage purchased from third parties.

# WOOD PRODUCTS: Segment Summary

- Lumber price decline in Q1 was muted by mix
- Lumber shipments were relatively flat; inventories increased in preparation for capital project outage in Q2



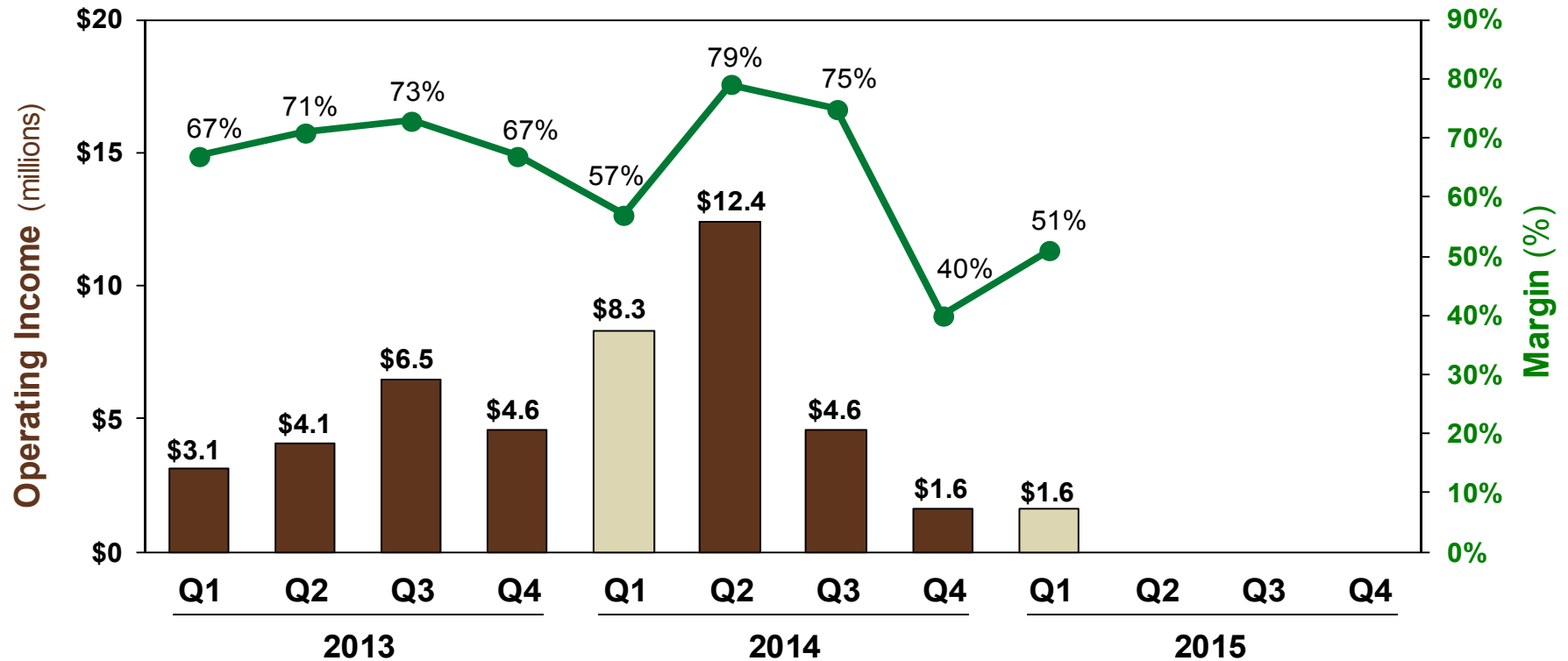
# WOOD PRODUCTS: Lumber – Sales Prices and Shipments





# REAL ESTATE: Segment Summary

- Q1 2014 included sale of 11,000 acres of rural recreation property in one transaction
- Average HBU per acre price was higher Q1 due to sale of an industrial lot



# FINANCIAL HIGHLIGHTS

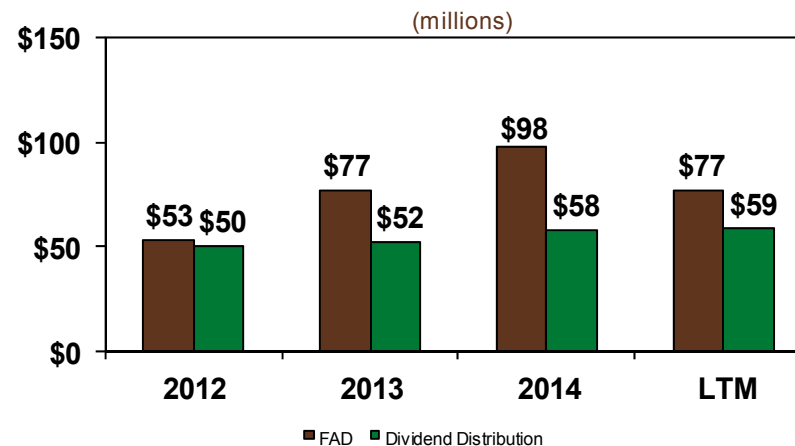
<b>Amounts as of March 31, 2015:</b>	
Unaudited, \$ in millions	
<b>Cash and short-term investments</b>	\$ 28.0
<b>Long-term debt</b>	\$ 629.6
<b>Pension &amp; other postretirement liability</b>	\$ 115.6
<b>Undrawn revolver</b>	\$ 248.6
<b>Net debt to enterprise value<sup>(1)</sup></b>	27.0%
<b>Dividend yield<sup>(2)</sup></b>	3.7%

<sup>(1)</sup> Net debt to enterprise value is a non-GAAP measure and is calculated as net debt divided by enterprise value. Net debt is calculated as long-term debt (\$630), less cash and short-term investments (\$28). Net debt plus market capitalization (\$1,629) equals enterprise value. Market capitalization is as of March 31, 2015.

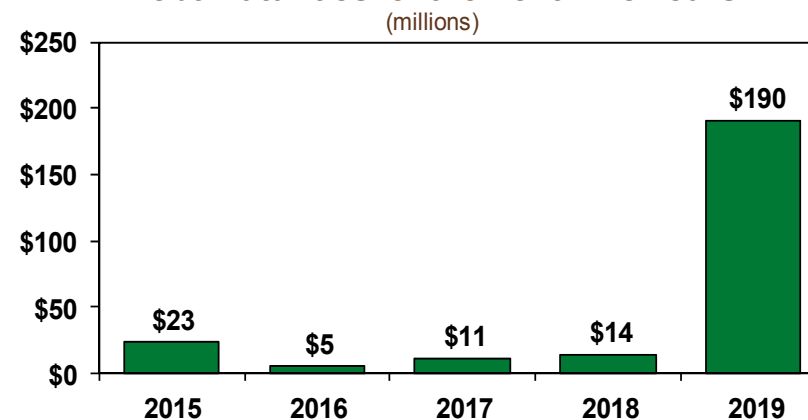
<sup>(2)</sup> Based on the closing stock price of \$40.04 per share as of March 31, 2015.

<sup>(3)</sup> FAD is a non-GAAP measure. See slide 17 for reconciliation.

## Funds Available for Distribution<sup>(3)</sup>



## Debt Maturities for the Next Five Years



# OUTLOOK

## RESOURCE

- **Harvest 900,000 – 950,000 tons Q2**
  - ✓ ≈60% South, 40% North
  - ✓ Sawlogs ≈45% of Southern volume and ≈90% of Northern volume
- **Flat sawlog prices in the North**
- **Higher sawlog price in the South due to seasonally higher mix of hardwood**

## WOOD PRODUCTS

- **Ship 165 mmbf of lumber Q2**
- **≈5% lower lumber price sequentially given low starting point Q2 and less favorable mix**

## REAL ESTATE

- **Q2 Real Estate results expected to look virtually identical to Q1**

## OTHER

- **Corporate and interest expense both expected to be slightly higher Q2**
- **Consolidated tax rate estimated to be 10% to 15% for the year**
- **Capital expenditures of \$36 million for the year**

# Appendix



# STATISTICS: Resource

(unaudited)

Fee Volumes (tons)	2014				2015
	Q1	Q2	Q3	Q4	Q1
<b>Northern Region</b>					
Sawlog	443,084	279,831	720,460	538,738	451,548
Pulpwood	60,579	30,124	62,340	48,883	47,840
Stumpage	10,968	2,475	1,862	1,007	16,903
Total	514,631	312,430	784,662	588,628	516,291
<b>Southern Region</b>					
Sawlog	121,910	115,855	200,838	181,147	154,730
Pulpwood	197,829	171,136	229,635	218,808	177,345
Stumpage	4,975	952	1,095	14,776	39,961
Total	324,714	287,943	431,568	414,731	372,036
Total Fee Volume	839,345	600,373	1,216,230	1,003,359	888,327
<b>Sales Price/Unit (\$ per ton)</b>					
<b>Northern Region</b>					
Sawlog	\$ 83	\$ 91	\$ 96	\$ 92	\$ 83
Pulpwood	\$ 41	\$ 43	\$ 45	\$ 44	\$ 43
Stumpage	\$ 11	\$ 11	\$ 11	\$ 14	\$ 9
<b>Southern Region</b>					
Sawlog	\$ 41	\$ 43	\$ 50	\$ 47	\$ 40
Pulpwood	\$ 32	\$ 33	\$ 35	\$ 35	\$ 33
Stumpage	\$ 11	\$ 34	\$ 19	\$ 13	\$ 18

# STATISTICS: Wood Products & Real Estate

(unaudited)

	2014				2015
	Q1	Q2	Q3	Q4	Q1
<b>Wood Products</b>					
Lumber Shipments (MBF)	155,596	176,046	171,818	156,123	154,206
Lumber Sales Prices (\$ per MBF)	\$ 402	\$ 407	\$ 408	\$ 393	\$ 386
<b>Real Estate</b>					
Acres Sold					
HBU Development	68	1,424	1,876	416	243
Rural Real Estate	13,203	10,821	1,721	2,314	1,122
Non-Strategic Timberlands	228	838	202	292	788
	13,499	13,083	3,799	3,022	2,153
Revenues by Product Type (millions)					
HBU Development	\$ 0.2	\$ 2.9	\$ 3.9	\$ 1.1	\$ 0.9
Rural Real Estate	14.0	12.2	2.2	2.8	1.5
Non-Strategic Timberlands	0.2	0.7	0.1	0.2	0.7
	\$ 14.4	\$ 15.8	\$ 6.2	\$ 4.1	\$ 3.1
Sales Price per Acre					
HBU Development	\$ 2,783	\$ 2,025	\$ 2,096	\$ 2,529	\$ 3,587
Rural Real Estate	\$ 1,066	\$ 1,125	\$ 1,245	\$ 1,211	\$ 1,324
Non-Strategic Timberlands	\$ 793	\$ 807	\$ 610	\$ 808	\$ 903
Transactions by Product Type					
HBU Development	4	12	15	15	8
Rural Real Estate	20	25	25	28	20
Non-Strategic Timberlands	3	5	4	7	6
	27	42	44	50	34

# EBITDDA RECONCILIATION

(unaudited, \$ in millions)

Unaudited, \$ in millions	2014				2015
	Q1	Q2	Q3	Q4	Q1
GAAP net income	\$ 20.3	\$ 16.3	\$ 33.2	\$ 20.1	\$ 5.7
Interest expense, net <sup>(1)</sup>	5.5	5.5	5.5	6.4	8.1
Income tax provision	5.5	7.9	6.2	0.1	0.3
Depreciation, depletion & amortization	5.8	4.6	7.9	7.1	8.1
Basis of real estate sold	4.6	2.2	0.5	1.3	0.4
<b>EBITDDA<sup>(2)</sup></b>	<b>\$ 41.7</b>	<b>\$ 36.5</b>	<b>\$ 53.3</b>	<b>\$ 35.0</b>	<b>\$ 22.6</b>

(1) Interest expense includes amortization of bond discounts and deferred loan fees.

(2) EBITDDA is a non-GAAP measure that management uses to evaluate the cash generating capacity of the company. EBITDDA, as we define it, is net income adjusted for interest expense, provision for income taxes, depreciation, depletion and amortization and basis of real estate sold.

# EBITDDA RECONCILIATION: By Segment

(unaudited, \$ in millions)

Unaudited, \$ in millions	2014				2015
	Q1	Q2	Q3	Q4	Q1
<b>Resource</b>					
Operating income	\$ 16.2	\$ 10.8	\$ 34.1	\$ 23.9	\$ 15.0
Depreciation, depletion and amortization	3.9	2.8	6.0	5.1	6.2
Resource EBITDDA	20.1	13.6	40.1	29.0	21.2
<b>Wood Products</b>					
Operating income	12.7	14.9	15.8	9.1	3.5
Depreciation and amortization	1.5	1.5	1.5	1.6	1.6
Wood Products EBITDDA	14.2	16.4	17.3	10.7	5.1
<b>Real Estate</b>					
Operating income	8.3	12.4	4.6	1.6	1.6
Basis of real estate sold and depreciation	5.2	2.2	0.6	1.5	0.5
Real Estate EBITDDA	13.5	14.6	5.2	3.1	2.1
Eliminations and adjustments <sup>(1)</sup>	0.8	0.8	(2.0)	0.2	3.0
<b>Corporate</b>					
Corporate expense	(6.7)	(9.2)	(7.6)	(8.2)	(9.0)
Depreciation, amortization and basis of land adjustment	(0.2)	0.3	0.3	0.2	0.2
Corporate EBITDDA	(6.9)	(8.9)	(7.3)	(8.0)	(8.8)
<b>EBITDDA<sup>(2)</sup></b>	<b>\$ 41.7</b>	<b>\$ 36.5</b>	<b>\$ 53.3</b>	<b>\$ 35.0</b>	<b>\$ 22.6</b>

(1) Eliminations and adjustments primarily represent elimination of profit in ending inventory related to intersegment sales from Resource to Wood Products.

(2) EBITDDA is a non-GAAP measure that management uses to evaluate the cash generating capacity of the company. EBITDDA, as we define it, is net income adjusted for interest expense, provision for income taxes, depreciation, depletion and amortization and basis of real estate sold.



# FAD RECONCILIATION

(unaudited, \$ in millions)

Unaudited, \$ in millions	2014				2015
	Q1	Q2	Q3	Q4	Q1
GAAP net income	\$ 20.3	\$ 16.3	\$ 33.2	\$ 20.1	\$ 5.7
Depreciation, depletion & amortization <sup>(1)</sup>	6.1	4.9	8.3	7.4	8.5
Basis of real estate sold	4.6	2.2	0.5	1.3	0.4
Capital expenditures <sup>(2)</sup>	(3.6)	(8.8)	(7.8)	(7.2)	(7.5)
<b>Funds Available for Distribution<sup>(2)</sup></b>	<b>\$ 27.4</b>	<b>\$ 14.6</b>	<b>\$ 34.2</b>	<b>\$ 21.6</b>	<b>\$ 7.1</b>

(1) Depreciation, depletion & amortization includes amortization of bond discounts and deferred loan fees included in interest expense, net.

(2) Funds Available for Distribution (FAD), as we define it, is net income adjusted for depreciation, depletion and amortization, basis of real estate sold, and capital expenditures. For purposes of this definition, capital expenditures exclude all expenditures relating to direct or indirect timberland purchases in excess of \$5 million.

# OPERATING WORKING CAPITAL RECONCILIATION

(unaudited, \$ in millions)

Unaudited, \$ in millions	2014				2015
	Q1	Q2	Q3	Q4	Q1
Current assets	\$ 139.1	\$ 145.1	\$ 144.1	\$ 93.7	\$ 89.3
Less: current liabilities	(49.5)	(54.9)	(60.0)	(72.2)	(81.5)
Working capital	89.6	90.2	84.1	21.5	7.8
Less: Cash	(9.4)	(9.3)	(8.3)	(4.6)	(9.1)
Less: Short-term investments	(66.9)	(73.9)	(65.0)	(26.4)	(18.9)
Add: Current installments on long-term debt	-	-	-	22.9	27.5
<b>Operating Working Capital</b>	<b>\$ 13.3</b>	<b>\$ 7.0</b>	<b>\$ 10.8</b>	<b>\$ 13.4</b>	<b>\$ 7.3</b>

