

# Potlatch Corporation

Second Quarter 2013 Conference Call  
Supplemental Information

**Michael J. Covey**

Chairman & Chief Executive Officer

**Eric J. Cremers**

President, Chief Operating Officer and Chief Financial Officer

July 24, 2013



[WWW.POTLATCHCORP.COM](http://WWW.POTLATCHCORP.COM)

## 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 our outlook for future company performance, sawlog, pulpwood, lumber and real estate market conditions, North America lumber demand, duties on Canadian lumber exports to the U.S., lumber inventory levels, 2013 harvest level, future harvest levels, ability to increase harvest levels, U.S. housing market recovery and affordability, 2013 domestic housing starts, U.S. labor market, earnings and cashflows in our Resource and Wood Products segments, demand and pricing for sawlogs, pulpwood, lumber, plywood and residuals, logging costs, Chinese demand for sawlogs and Wood Products, diminished lumber production in Canada due to mountain pine beetle epidemic and lower allowable cut in eastern Canadian province, future harvest potential, expected 2013 sales of slightly more than our original estimate 18-20,000 acres, estimated average real estate sales price of \$1,400 per acre and estimated basis of 20-25% for real estate sales in the third and fourth quarters of 2013, operating income and margin trends in the Real Estate segment, demand and pricing for Rural Recreational and HBU properties, performance of our Resource, Wood Products and Real Estate segments in 2013, quarterly shipments in our Wood Products segment in the third and fourth quarters of 2013, completion of the Avery Landing environmental remediation in the third quarter of 2013, additional remediation costs, 2013 interest expense, 2013 quarterly dividend levels, the company's balance sheet, debt redemption, liquidity, cashflow, long-term debt maturities, 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, 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.

## Second Quarter 2013 Summary (unaudited)

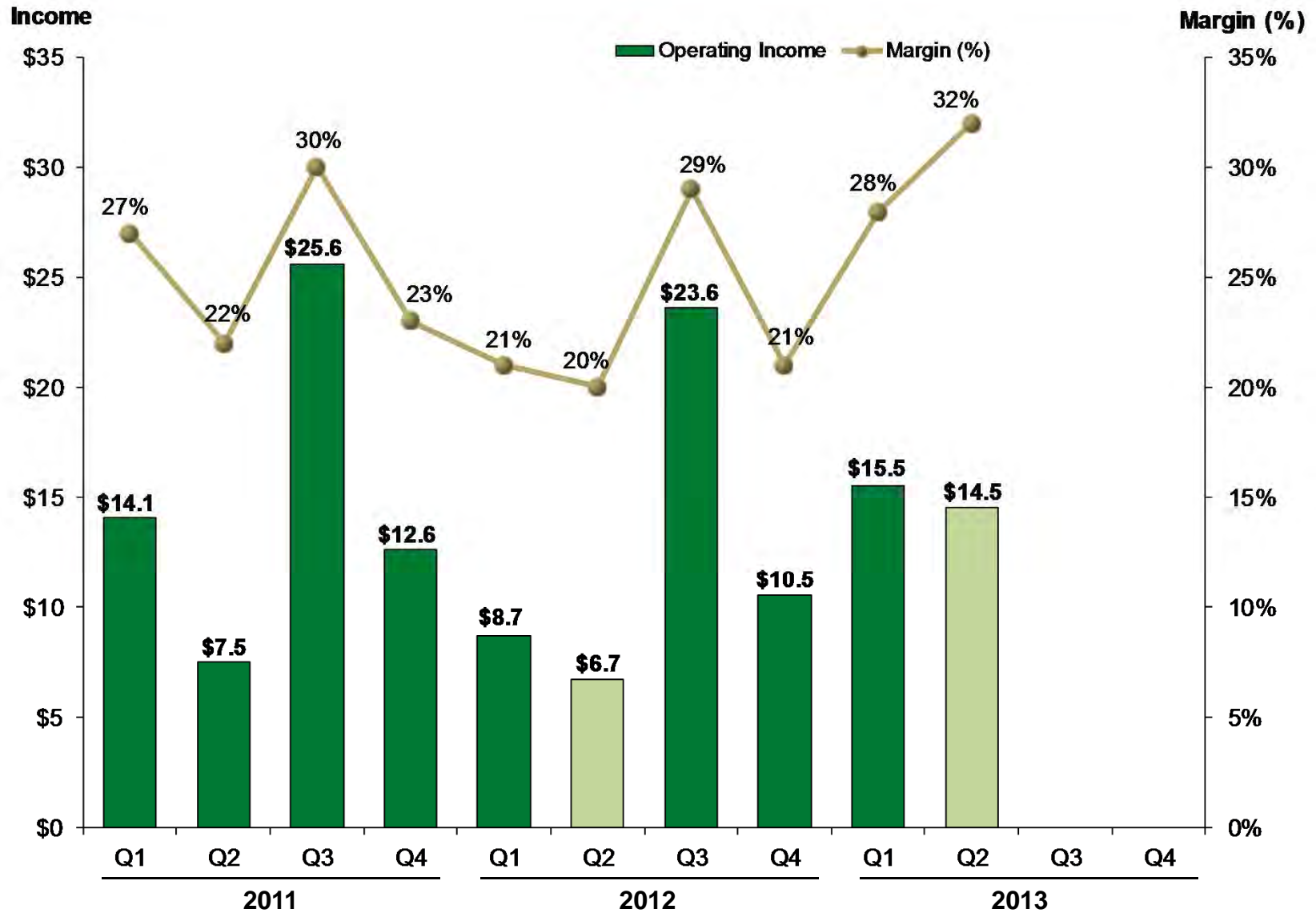
(\$ in thousands – except per-share amounts)

	2nd Quarter 2013	1st Quarter 2013	2nd Quarter 2012	Six Months Ended 2013	Six Months Ended 2012
<b>Operating income</b>					
Resource	\$ 14,467	\$ 15,525	\$ 6,711	\$ 29,992	\$ 15,380
Real Estate	4,116	3,083	6,689	7,199	13,001
Wood Products	19,725	18,910	11,672	38,635	16,716
Eliminations and adjustments	235	489	762	724	1,072
	38,543	38,007	25,834	76,550	46,169
Corporate	(7,712)	(11,140)	(9,175)	(18,852)	(17,425)
Net cash interest expense	(5,307)	(5,845)	(5,846)	(11,152)	(11,898)
Environmental remediation charge	(1,750)	(750)	-	(2,500)	-
Income before taxes	23,774	20,272	10,813	44,046	16,846
Income tax provision	4,592	4,785	5,733	9,377	6,715
<b>Net income</b>	<b>\$ 19,182</b>	<b>\$ 15,487</b>	<b>\$ 5,080</b>	<b>\$ 34,669</b>	<b>\$ 10,131</b>
plus: Net cash interest expense	5,307	5,845	5,846	11,152	11,898
Income tax provision	4,592	4,785	5,733	9,377	6,715
Depreciation, depletion and amortization	5,158	6,867	5,181	12,025	10,969
Basis of real estate sold	584	616	914	1,200	1,409
Non-cash asset impairment and eliminations	(134)	(159)	(116)	(293)	(167)
<b>EBITDDA*</b>	<b>\$ 34,689</b>	<b>\$ 33,441</b>	<b>\$ 22,638</b>	<b>\$ 68,130</b>	<b>\$ 40,955</b>
<b>FFO*</b>	<b>\$ 24,790</b>	<b>\$ 22,811</b>	<b>\$ 11,059</b>	<b>\$ 47,601</b>	<b>\$ 22,342</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.47</b>	<b>\$ 0.38</b>	<b>\$ 0.13</b>	<b>\$ 0.85</b>	<b>\$ 0.25</b>

\*Non-GAAP measure – See pages 16-21 for reconciliation to GAAP and definition.

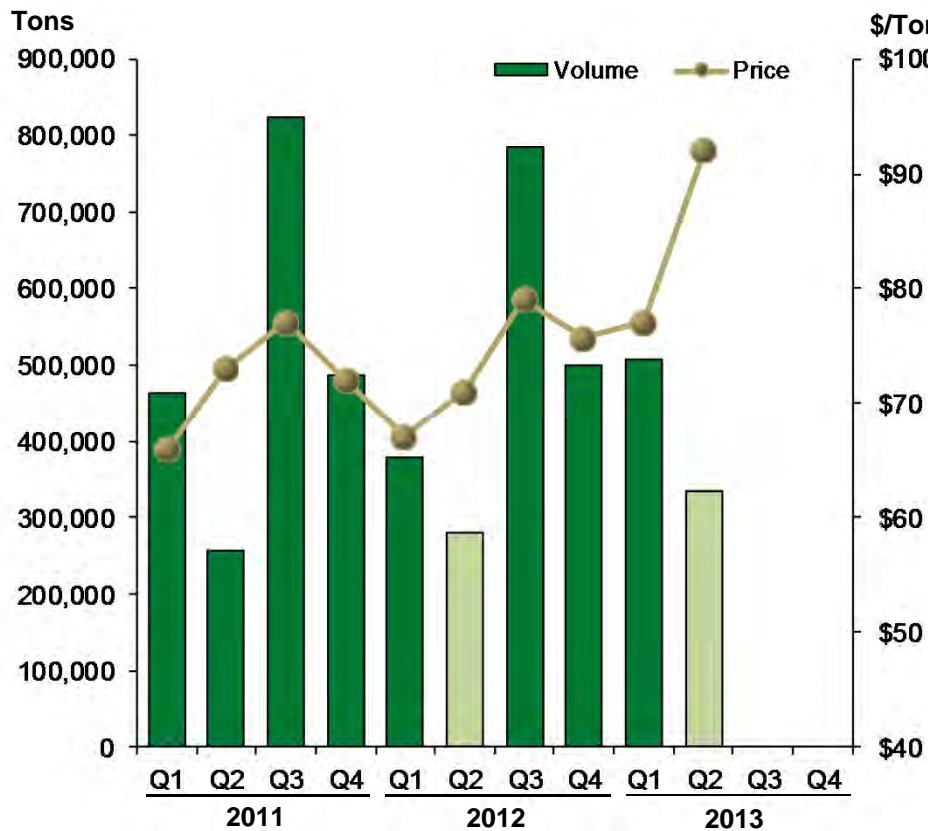
# Resource – Operating Income and Margin

(\$ in millions)

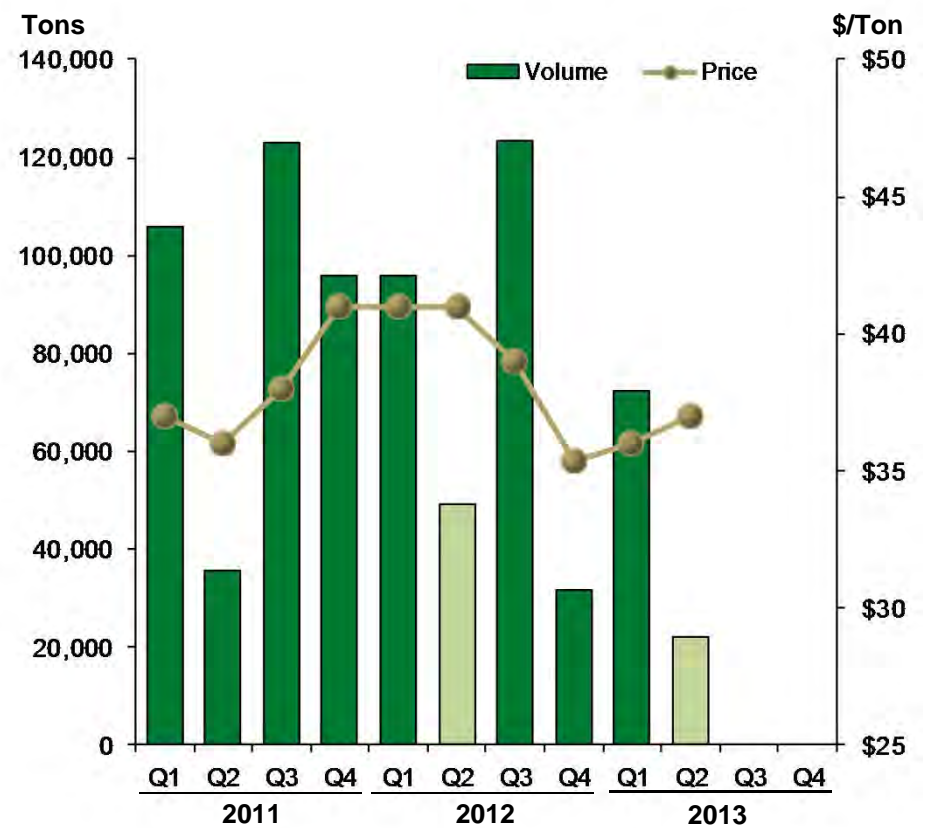


# Northern Region – Volume and Pricing

## Sawlog



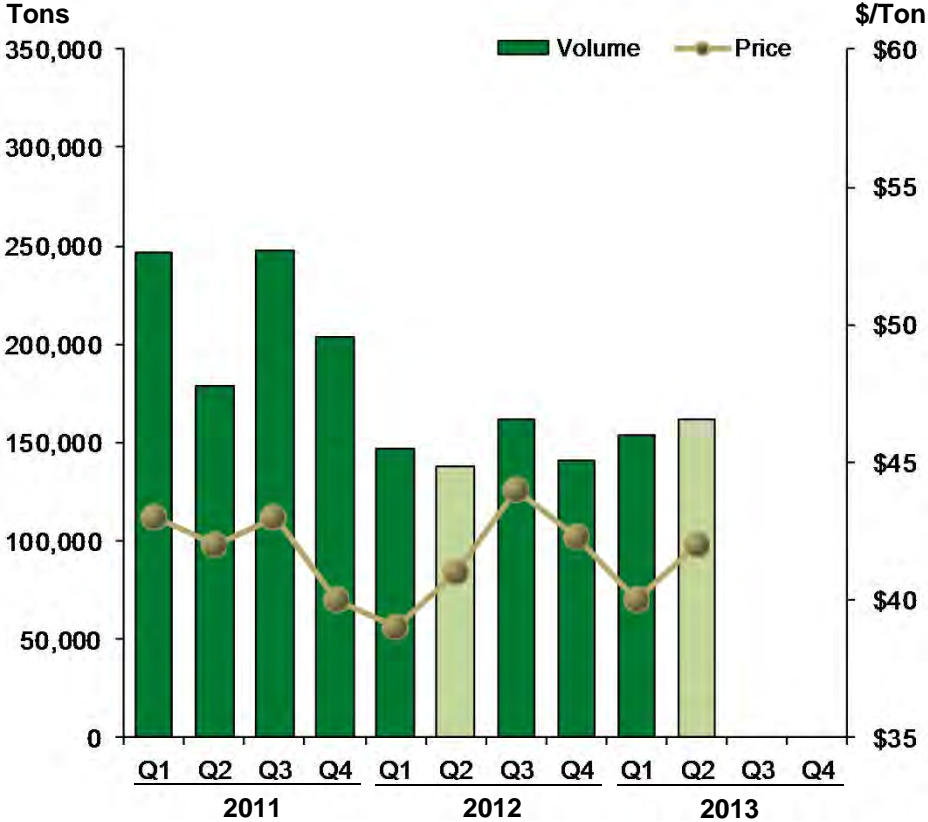
## Pulpwood



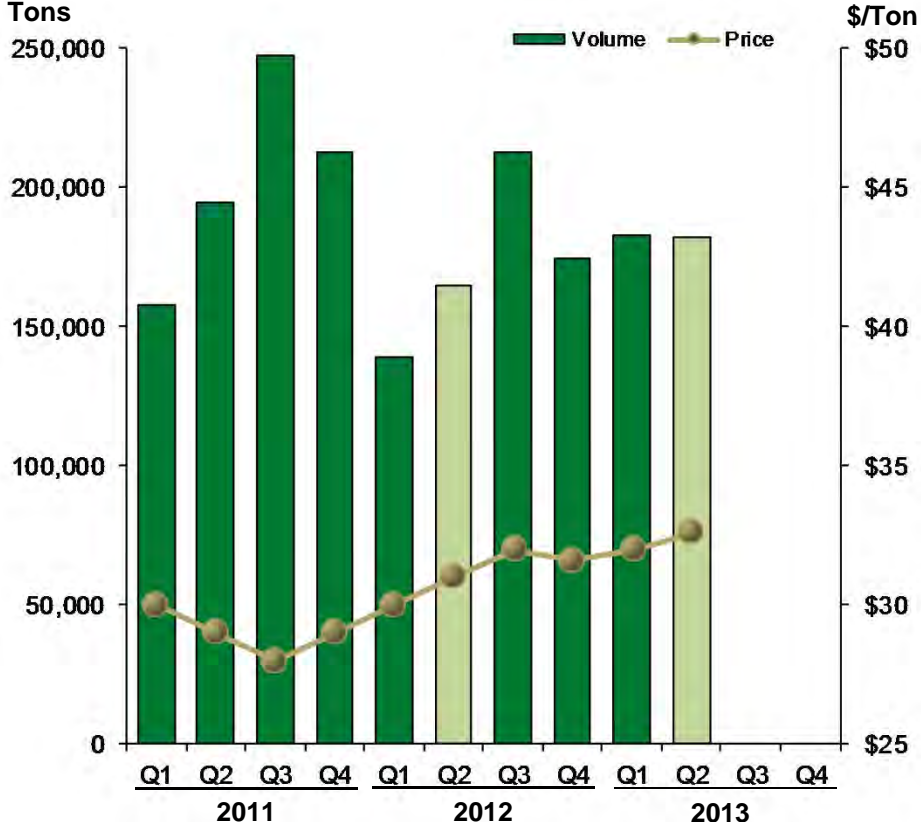
Note: Volumes include tonnage produced from company-owned fee land, while pricing data includes revenue generated from both company-owned fee land and non-fee stumpage purchased from third parties.

# Southern Region – Volume and Pricing

## Sawlog



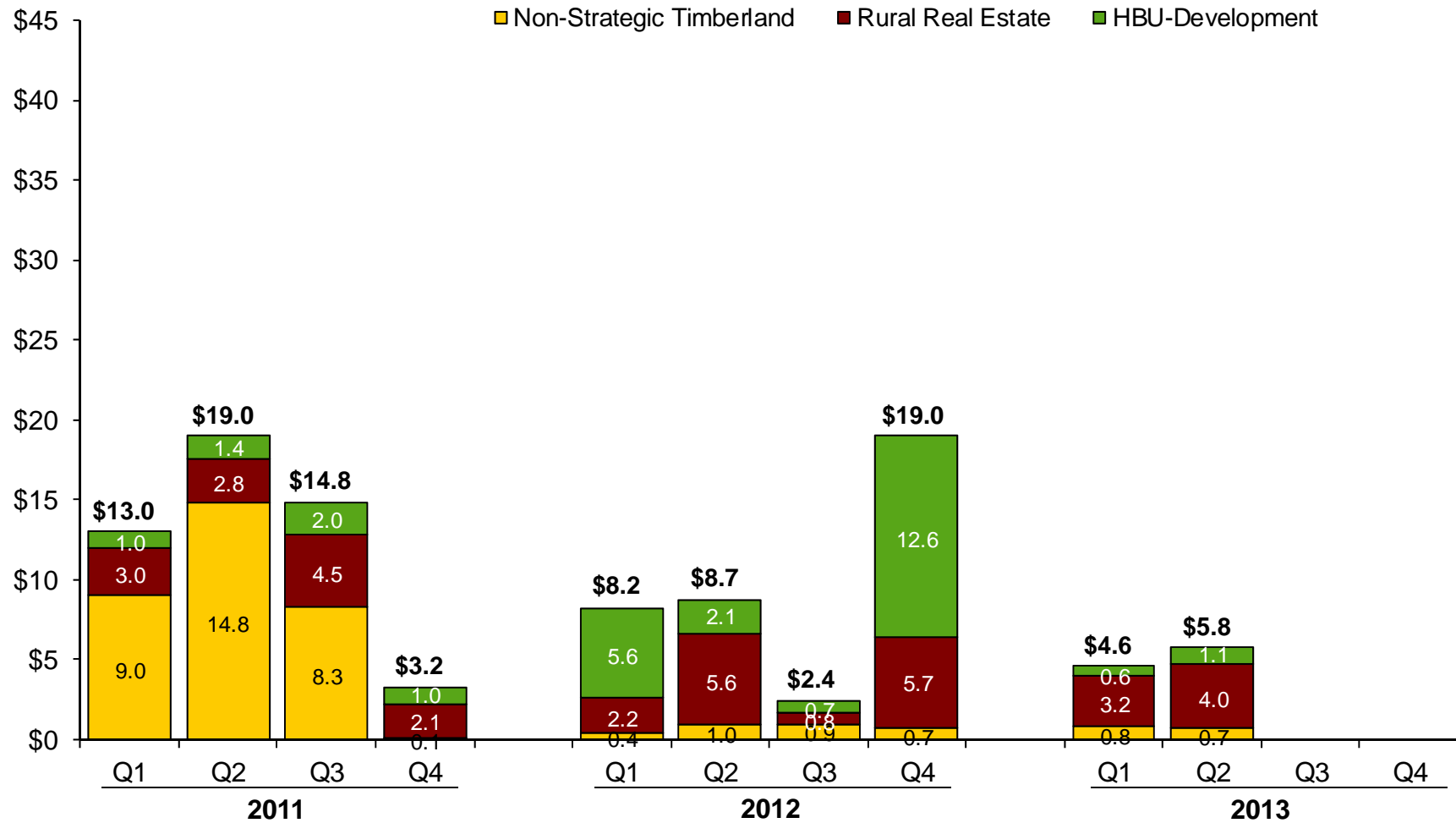
## Pulpwood



*Note: Volumes include tonnage produced 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.*

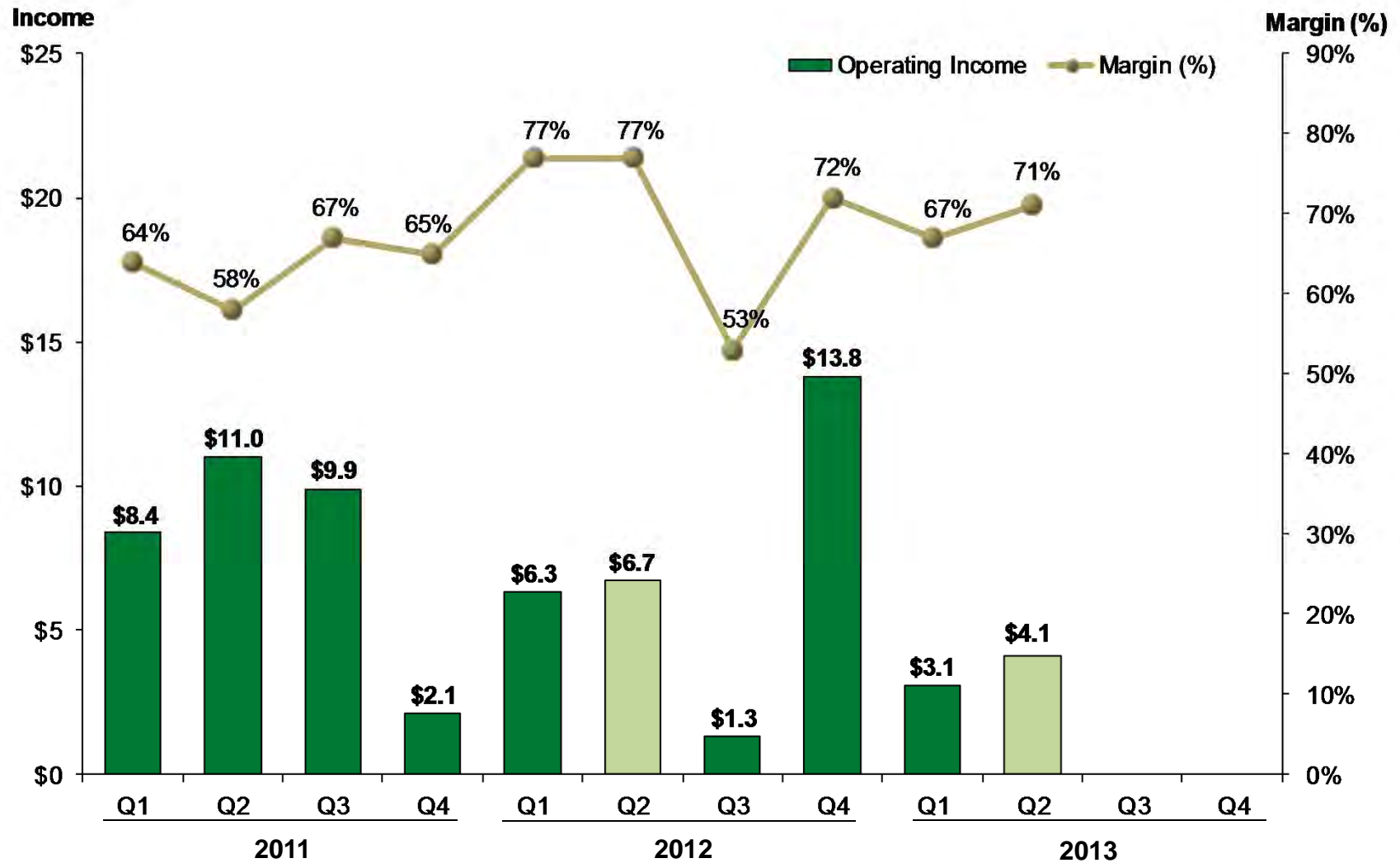
# Real Estate – Revenues

(\$ in millions)



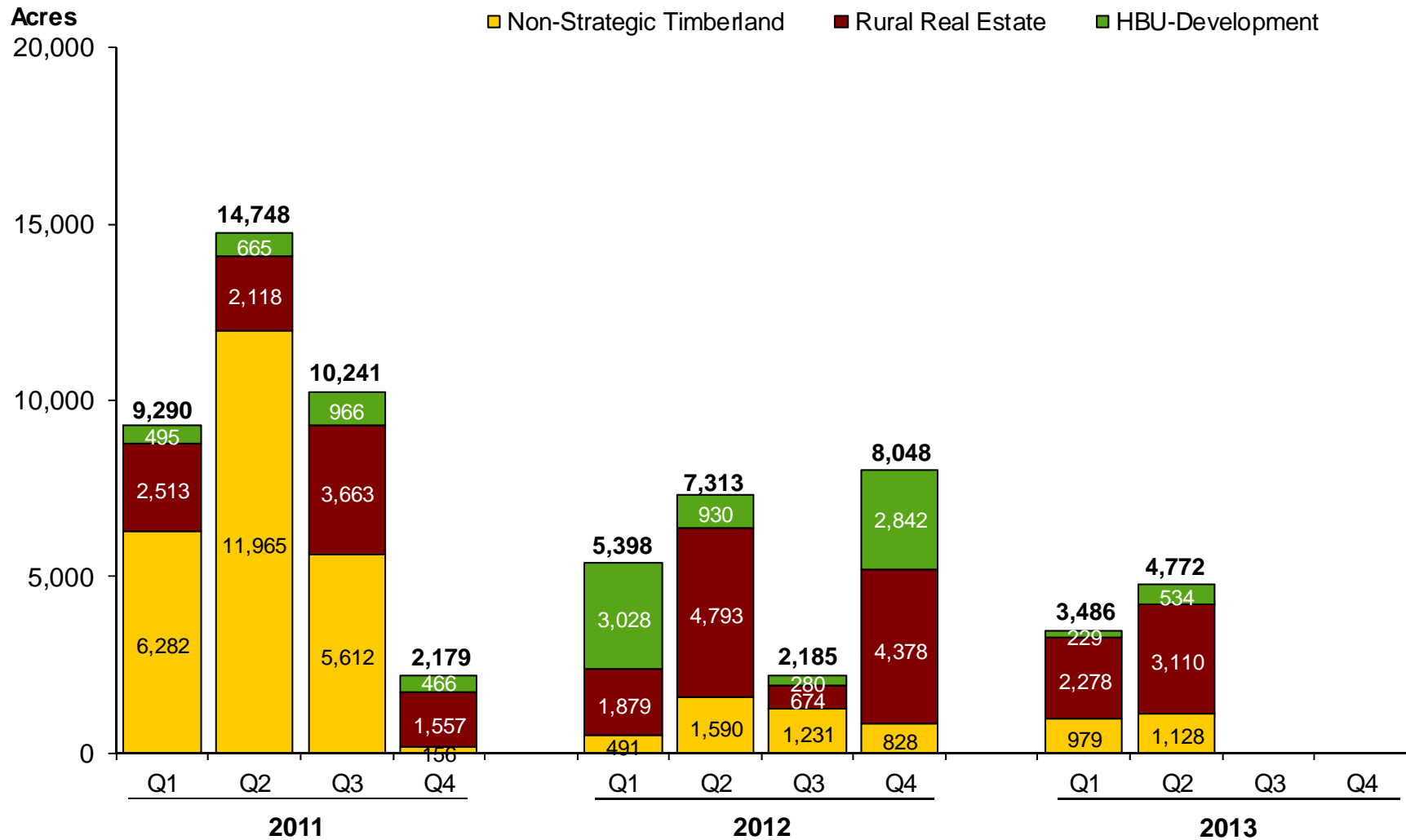
# Real Estate – Operating Income and Margin

(\$ in millions)

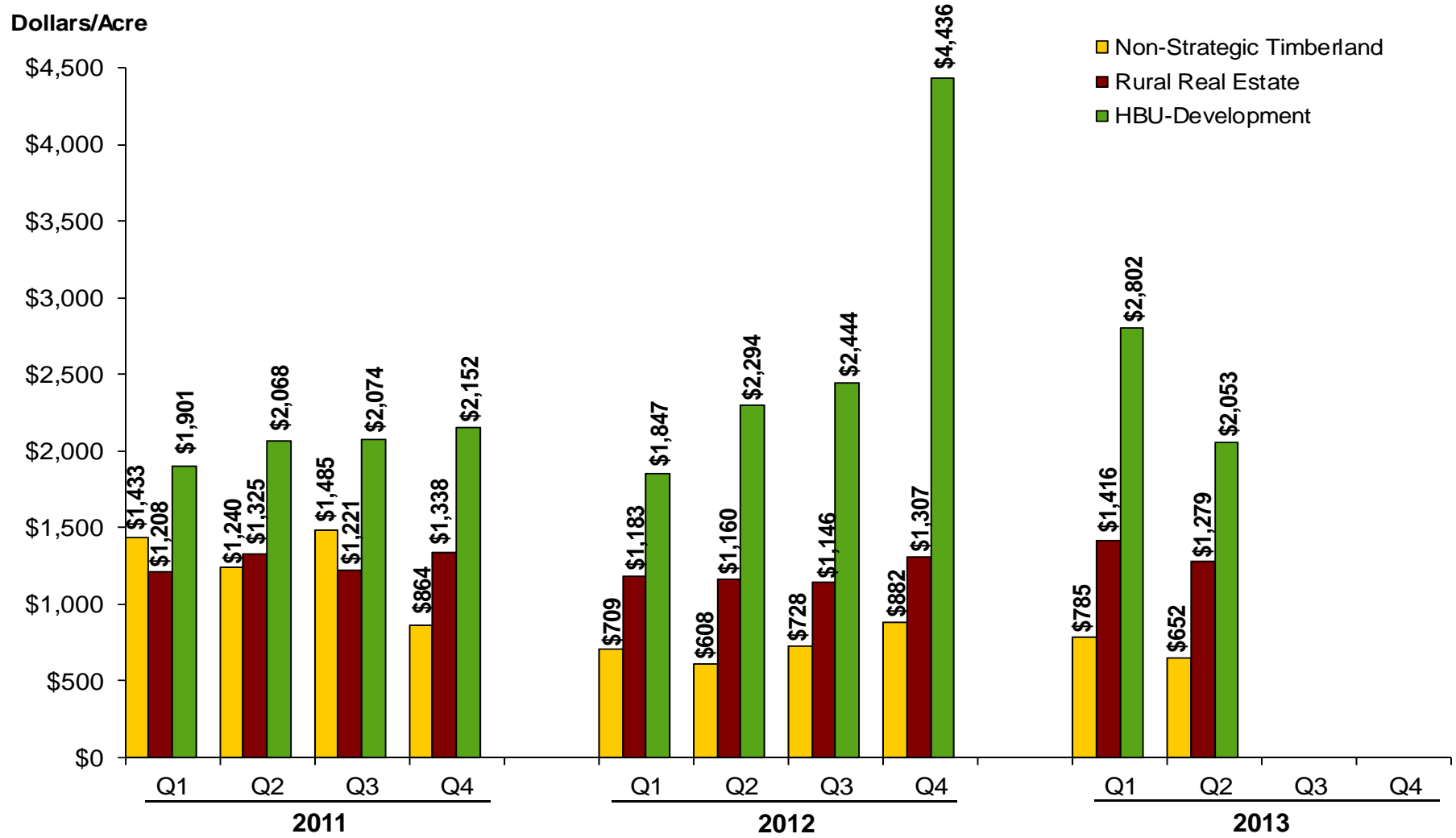




# Real Estate – Acres Sold

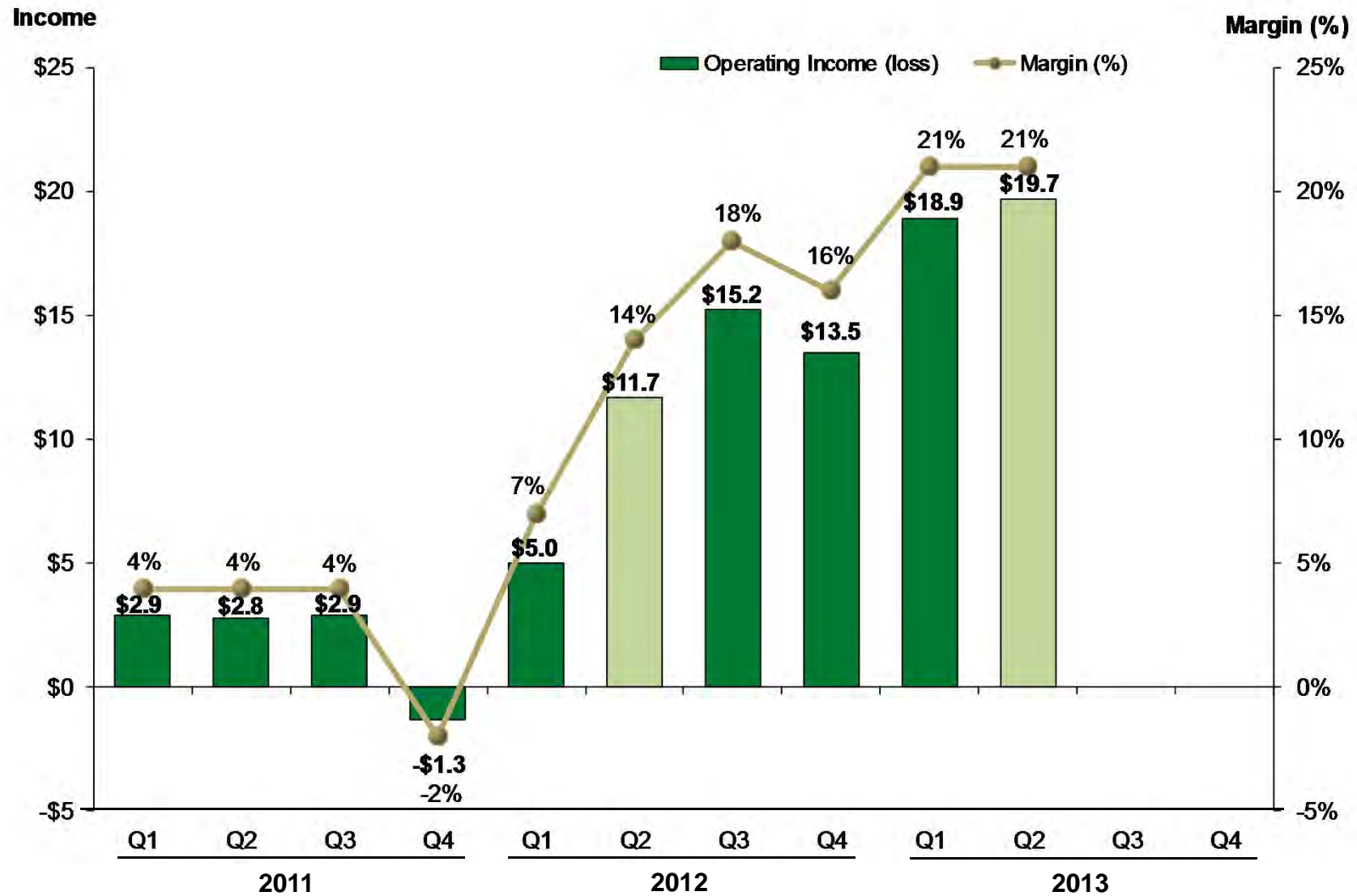


# Real Estate – Sales Prices Per Acre

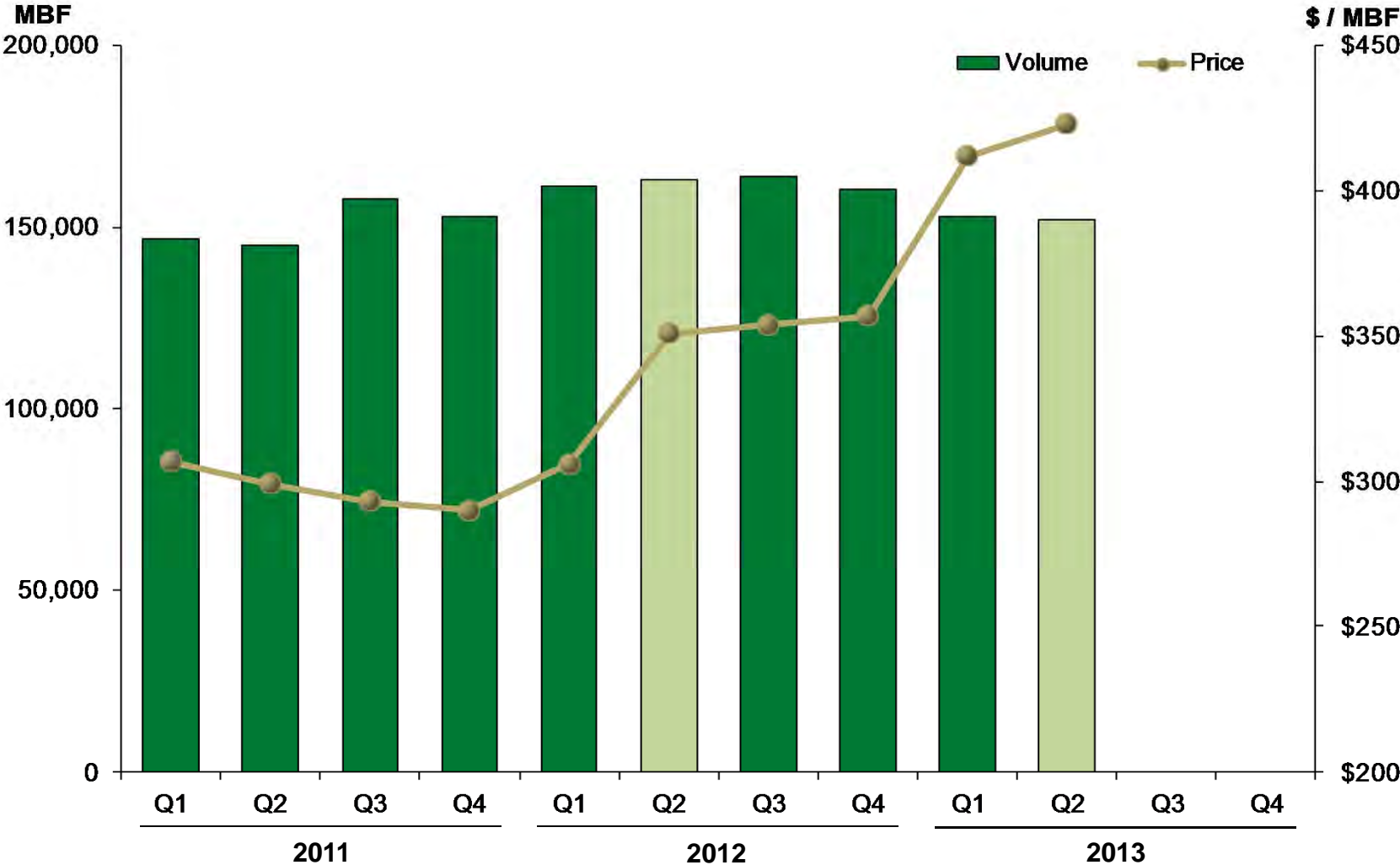


# Wood Products – Operating Income (Loss) and Margin

(\$ in millions)



# Lumber – Sales Prices and Shipments



## Volumes and Sales Prices Per Unit (unaudited)

	2nd Quarter 2013	1st Quarter 2013	2nd Quarter 2012	Six Months Ended 2013	Six Months Ended 2012
<b>Resource</b>					
<b>Fee Volume (tons)</b>					
Northern region					
Sawlog	333,924	507,346	281,265	841,270	660,532
Pulpwood	21,904	72,359	48,926	94,263	144,836
Stumpage	1,489	20,470	8,434	21,959	27,299
Total	<u>357,317</u>	<u>600,175</u>	<u>338,625</u>	<u>957,492</u>	<u>832,667</u>
Southern region					
Sawlog	161,410	153,280	137,838	314,690	284,560
Pulpwood	182,262	182,918	164,974	365,180	304,123
Total	<u>343,672</u>	<u>336,198</u>	<u>302,812</u>	<u>679,870</u>	<u>588,683</u>
Total Fee Volume (tons)	<u><u>700,989</u></u>	<u><u>936,373</u></u>	<u><u>641,437</u></u>	<u><u>1,637,362</u></u>	<u><u>1,421,350</u></u>
<b>Sales Prices/Unit (\$ per ton)</b>					
Northern region					
Sawlog	\$ 92	\$ 77	\$ 71	\$ 83	\$ 69
Pulpwood	37	36	41	36	41
Stumpage	5	8	9	8	10
Weighted Average	<u>\$ 88</u>	<u>\$ 70</u>	<u>\$ 66</u>	<u>\$ 77</u>	<u>\$ 62</u>
Southern region					
Sawlog	\$ 42	\$ 40	\$ 41	\$ 41	\$ 40
Pulpwood	33	32	31	33	30
Weighted Average	<u>\$ 37</u>	<u>\$ 36</u>	<u>\$ 35</u>	<u>\$ 37</u>	<u>\$ 35</u>
<b>Wood Products</b>					
Lumber Shipments (MBF)	151,967	152,862	163,215	304,829	324,721
Lumber Sales Prices (\$ per MBF)	\$ 423	\$ 412	\$ 351	\$ 418	\$ 329

## Financial Highlights (unaudited)

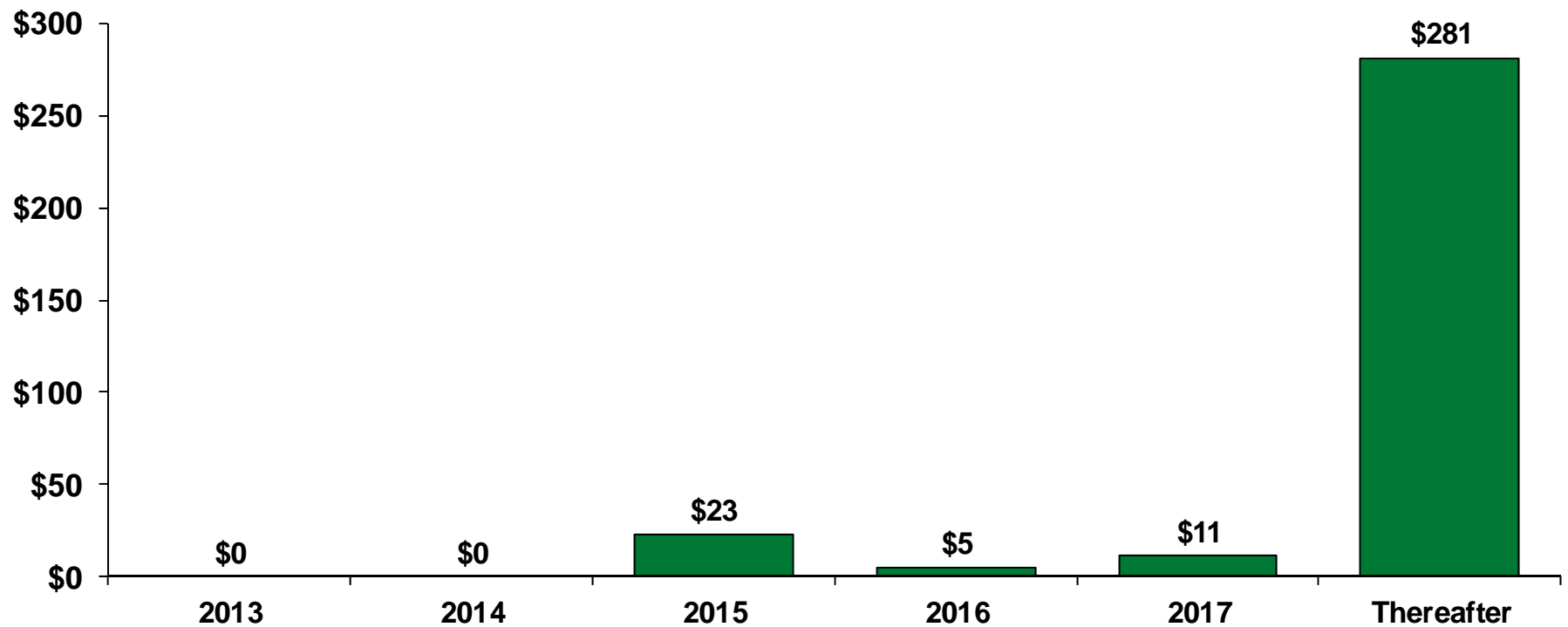
(\$ in thousands)

	<u>June 30, 2013</u>	<u>March 31, 2013</u>	<u>June 30, 2012</u>
<b>Balance Sheet Highlights:</b>			
Working capital	\$ 61,685	\$ 54,906	\$ 54,144
Operating working capital*	11,234	4,202	3,963
Total assets	697,105	700,235	691,605
Long-term debt (including current portion)	320,131	329,761	345,360
Stockholders' equity	154,801	143,808	130,570
Long-term debt to stockholders' equity ratio	2.1 to 1	2.3 to 1	2.6 to 1
<b>Six months ended June 30,</b>			
	<u>2013</u>	<u>2012</u>	
<b>Cash Flow Highlights:</b>			
Net cash provided by operating activities	\$ 41,515	\$ 12,360	
Net cash provided by investing activities	7,903	35,684	
Net cash used for financing activities	(59,997)	(47,315)	
<b>Capital expenditures</b>	(10,475)	(6,720)	

\*Non-GAAP measure – See pages 16-21 for reconciliation to GAAP and definition.

## Conservative Capital Structure: Long-Term Debt Maturity Profile

(\$ in millions)



## Reconciliation of Non-GAAP Measures (unaudited)

(\$ in thousands)

	<u>2nd Quarter 2013</u>	<u>1st Quarter 2013</u>	<u>2nd Quarter 2012</u>	<u>Six Months Ended 2013</u>	<u>Six Months Ended 2012</u>
<b>Earnings before interest, taxes, depreciation, depletion and amortization (EBITDDA):</b>					
GAAP net income	\$ 19,182	\$ 15,487	\$ 5,080	\$ 34,669	\$ 10,131
Net cash interest expense	5,307	5,845	5,846	11,152	11,898
Income tax provision	4,592	4,785	5,733	9,377	6,715
Depreciation, depletion and amortization	5,158	6,867	5,181	12,025	10,969
Basis of real estate sold	584	616	914	1,200	1,409
Non-cash asset impairment and eliminations	(134)	(159)	(116)	(293)	(167)
<b>EBITDDA*</b>	<b><u>\$ 34,689</u></b>	<b><u>\$ 33,441</u></b>	<b><u>\$ 22,638</u></b>	<b><u>\$ 68,130</u></b>	<b><u>\$ 40,955</u></b>

\*Non-GAAP measure – See page 21 for definition.



## Reconciliation of Non-GAAP Measures (unaudited)

(\$ in thousands)

	2nd Quarter 2013	1st Quarter 2013	2nd Quarter 2012	Six Months Ended 2013	Six Months Ended 2012
<b>Earnings before interest, taxes, depreciation, depletion and amortization (EBITDDA):</b>					
<b>Resource</b>					
Operating income	\$ 14,467	\$ 15,525	\$ 6,711	\$ 29,992	\$ 15,380
Depreciation, depletion and amortization	3,040	4,592	2,792	7,632	6,010
Resource EBITDDA	<u>17,507</u>	<u>20,117</u>	<u>9,503</u>	<u>37,624</u>	<u>21,390</u>
<b>Real Estate</b>					
Operating income	4,116	3,083	6,689	7,199	13,001
Basis of land & depreciation	598	629	923	1,227	1,427
Real Estate EBITDDA	<u>4,714</u>	<u>3,712</u>	<u>7,612</u>	<u>8,426</u>	<u>14,428</u>
<b>Wood Products</b>					
Operating income	19,725	18,910	11,672	38,635	16,716
Depreciation and amortization	1,520	1,509	1,646	3,029	3,506
Wood Products EBITDDA	<u>21,245</u>	<u>20,419</u>	<u>13,318</u>	<u>41,664</u>	<u>20,222</u>
<b>Corporate</b>					
Corporate expense	(7,712)	(11,140)	(9,175)	(18,852)	(17,425)
Environmental remediation charge	(1,750)	(750)	-	(2,500)	-
Eliminations and adjustments	235	489	762	724	1,072
Depreciation, amortization and basis of land adjustment	450	594	618	1,044	1,268
Corporate EBITDDA	<u>(8,777)</u>	<u>(10,807)</u>	<u>(7,795)</u>	<u>(19,584)</u>	<u>(15,085)</u>
<b>Total EBITDDA*</b>	<u><u>\$ 34,689</u></u>	<u><u>\$ 33,441</u></u>	<u><u>\$ 22,638</u></u>	<u><u>\$ 68,130</u></u>	<u><u>\$ 40,955</u></u>

\*Non-GAAP measure – See page 21 for definition.

## Reconciliation of Non-GAAP Measures (unaudited)

(\$ in thousands)

	<u>2nd Quarter 2013</u>	<u>1st Quarter 2013</u>	<u>2nd Quarter 2012</u>	<u>Six Months Ended 2013</u>	<u>Six Months Ended 2012</u>
<b>Funds from Operations (FFO):</b>					
GAAP net income	\$ 19,182	\$ 15,487	\$ 5,080	\$ 34,669	\$ 10,131
Depreciation, depletion and amortization	5,158	6,867	5,181	12,025	10,969
Basis of real estate sold	584	616	914	1,200	1,409
Non-cash asset impairment and eliminations	(134)	(159)	(116)	(293)	(167)
<b>FFO*</b>	<u><u>\$ 24,790</u></u>	<u><u>\$ 22,811</u></u>	<u><u>\$ 11,059</u></u>	<u><u>\$ 47,601</u></u>	<u><u>\$ 22,342</u></u>

\*Non-GAAP measure – See page 21 for definition.

## Reconciliation of Non-GAAP Measures (unaudited)

(\$ in thousands)

	<u>2nd Quarter 2013</u>	<u>1st Quarter 2013</u>	<u>2nd Quarter 2012</u>	<u>Six Months Ended 2013</u>	<u>Six Months Ended 2012</u>
<b>Funds Available for Distribution (FAD):</b>					
GAAP net income	\$ 19,182	\$ 15,487	\$ 5,080	\$ 34,669	\$ 10,131
Depreciation, depletion and amortization	5,158	6,867	5,181	12,025	10,969
Basis of real estate sold	584	616	914	1,200	1,409
Non-cash asset impairment and eliminations	(134)	(159)	(116)	(293)	(167)
Capital expenditures	(5,843)	(4,632)	(3,591)	(10,475)	(6,720)
<b>FAD*</b>	<u><u>\$ 18,947</u></u>	<u><u>\$ 18,179</u></u>	<u><u>\$ 7,468</u></u>	<u><u>\$ 37,126</u></u>	<u><u>\$ 15,622</u></u>

\*Non-GAAP measure – See page 21 for definition.

## Reconciliation of Non-GAAP Measures (unaudited)

(\$ in thousands)

	<u>June 30, 2013</u>	<u>March 31, 2013</u>	<u>June 30, 2012</u>
<b>Operating Working Capital</b>			
Current assets	\$ 120,257	\$ 122,926	\$ 114,179
Less current liabilities	<u>(58,572)</u>	<u>(68,020)</u>	<u>(60,035)</u>
Working capital	61,685	54,906	54,144
Less cash	(6,406)	(4,279)	(8,548)
Less short-term investments	(44,045)	(55,438)	(41,646)
Add current installments on long-term debt	-	9,013	13
<b>Operating Working Capital*</b>	<u><u>\$ 11,234</u></u>	<u><u>\$ 4,202</u></u>	<u><u>\$ 3,963</u></u>

\*Non-GAAP measure – See page 21 for definition.

## Definition of Non-GAAP Measures

**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 net cash interest expense, provision for income taxes, depreciation, depletion and amortization, basis of real estate sold and non-cash asset impairment and eliminations.

**Funds from Operations (FFO)** is a non-GAAP measure that is commonly used by REITs in the real estate industry. FFO is presented as a supplemental financial measure. We do not use FFO as, nor should it be considered to be, an alternative to net income computed under GAAP as an indicator of our operating performance, or as an alternative to cash from operating activities computed under GAAP as an indicator of our ability to fund our cash needs. FFO, as we define it, may not be comparable with measures of similar titles reported by other companies. We define FFO as net income, plus depreciation, depletion and amortization, basis of real estate sold and non-cash asset impairment and eliminations. Management believes that FFO is a meaningful supplemental measure of our operating performance because historical cost accounting for assets such as our manufacturing facilities and timberlands assumes that the value of such assets diminishes predictably over time. However, the values of our manufacturing facilities and timberlands have historically risen and fallen based on market conditions for the products we manufacture and for timber and timberlands. Management also considers the FFO measure in determining, among other things, quarterly and annual distribution rates to recommend to our board of directors, future levels of capital spending and debt repayment. We disclose this supplemental financial measure to enable investors to align their analysis and evaluation of our operating results along the same lines as management uses in planning and executing our business strategy.

**Funds Available for Distribution (FAD)**, as we define it, is net income adjusted for depreciation, depletion and amortization, basis of real estate sold, non-cash asset impairment and eliminations 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** is calculated as working capital excluding cash, short-term investments, and current installments on long-term debt.

