

# 1Q 2014 Earnings Release Potlatch Corporation

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April 22, 2014



# 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 our outlook for future operating conditions in sawlog, pulpwood, lumber, plywood and real estate markets, expected 2014 harvest level, expected Idaho harvest volume in the second quarter of 2014, 2014 domestic housing starts and spring building season, earnings and cashflows in our Resource, Wood Products and Real Estate segments in the second quarter of 2014, demand and pricing for sawlogs and pulpwood in the North and South in the second quarter of 2014 and for the full year, demand and pricing for lumber, plywood and residuals in the second quarter of 2014 and for the full year, lumber inventories, logging costs, transportation availability and cost, fuel costs, expected 2014 real estate sales, expected closing of a large real estate transaction in Minnesota in the second quarter of 2014, estimated basis for real estate sales in 2014, performance of our Resource, Wood Products and Real Estate segments in 2014, 2014 capital expenditures, the company's balance sheet, contributions to pension plans, liquidity, cashflows and dividend levels, long-term debt maturities, expected consolidated tax rate in 2014, 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.

## 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 2014: Total Company Summary

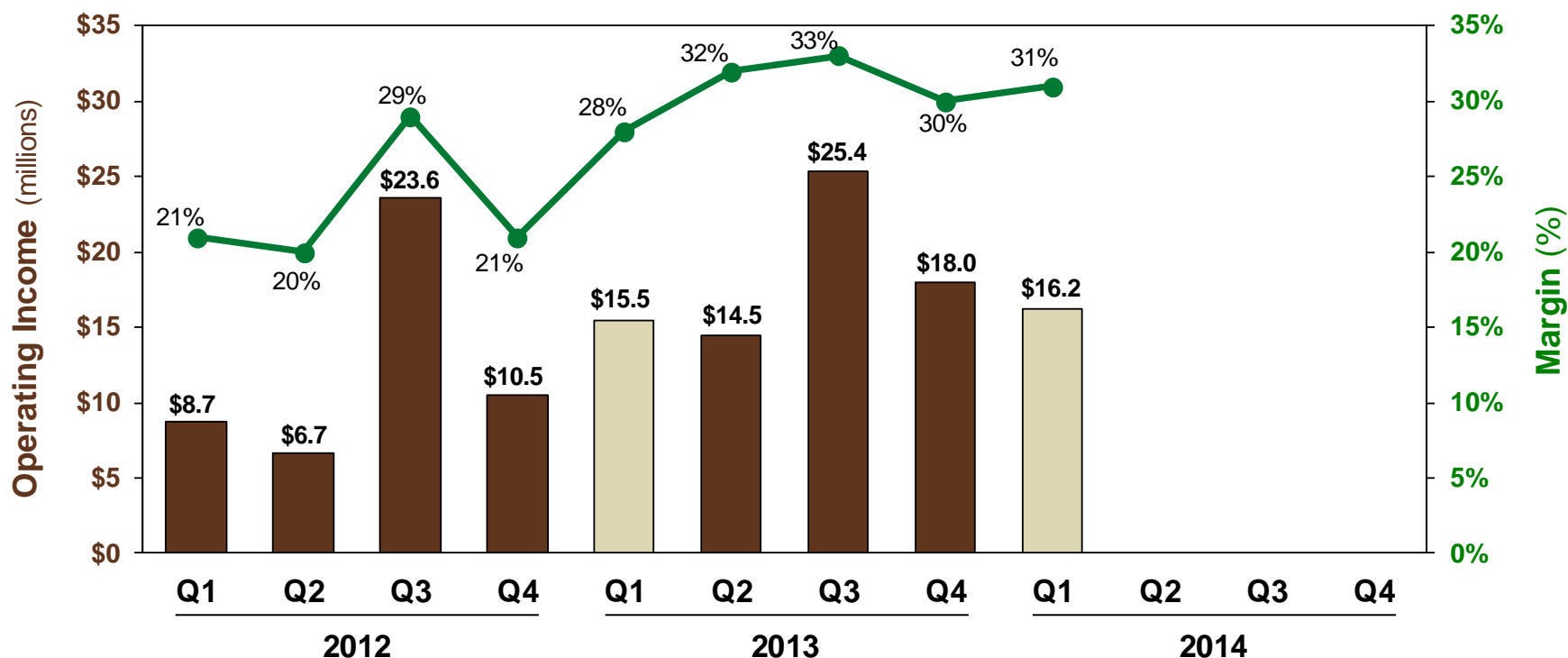
(unaudited, \$ in millions)

	2013				2014
	Q1	Q2	Q3	Q4	Q1
<b>Operating income</b>					
Resource	\$ 15.5	\$ 14.5	\$ 25.4	\$ 18.0	\$ 16.2
Wood Products	18.9	19.7	11.3	9.0	12.7
Real Estate	3.1	4.1	6.5	4.6	8.3
Eliminations and adjustments	0.5	0.2	(0.8)	(0.8)	0.8
Total operating income	38.0	38.5	42.4	30.8	38.0
Corporate	(10.6)	(7.3)	(10.5)	(10.2)	(6.7)
Interest expense, net	(6.3)	(5.7)	(5.5)	(5.6)	(5.5)
Environmental remediation charge	(0.8)	(1.7)	(1.0)	-	-
Income before taxes	20.3	23.8	25.4	15.0	25.8
Income tax provision	(4.8)	(4.6)	(3.2)	(1.3)	(5.5)
<b>Net income</b>	<b>\$ 15.5</b>	<b>\$ 19.2</b>	<b>\$ 22.2</b>	<b>\$ 13.7</b>	<b>\$ 20.3</b>
<b>Diluted earnings per share</b>	<b>\$ 0.38</b>	<b>\$ 0.47</b>	<b>\$ 0.54</b>	<b>\$ 0.34</b>	<b>\$ 0.50</b>
<b>Distributions per share</b>	<b>\$ 0.31</b>	<b>\$ 0.31</b>	<b>\$ 0.31</b>	<b>\$ 0.35</b>	<b>\$ 0.35</b>
<b>EBITDA<sup>(1)</sup></b>	<b>\$ 33.4</b>	<b>\$ 34.7</b>	<b>\$ 39.7</b>	<b>\$ 28.2</b>	<b>\$ 41.7</b>

(1) Non-GAAP measure. See slide 14 for reconciliation.

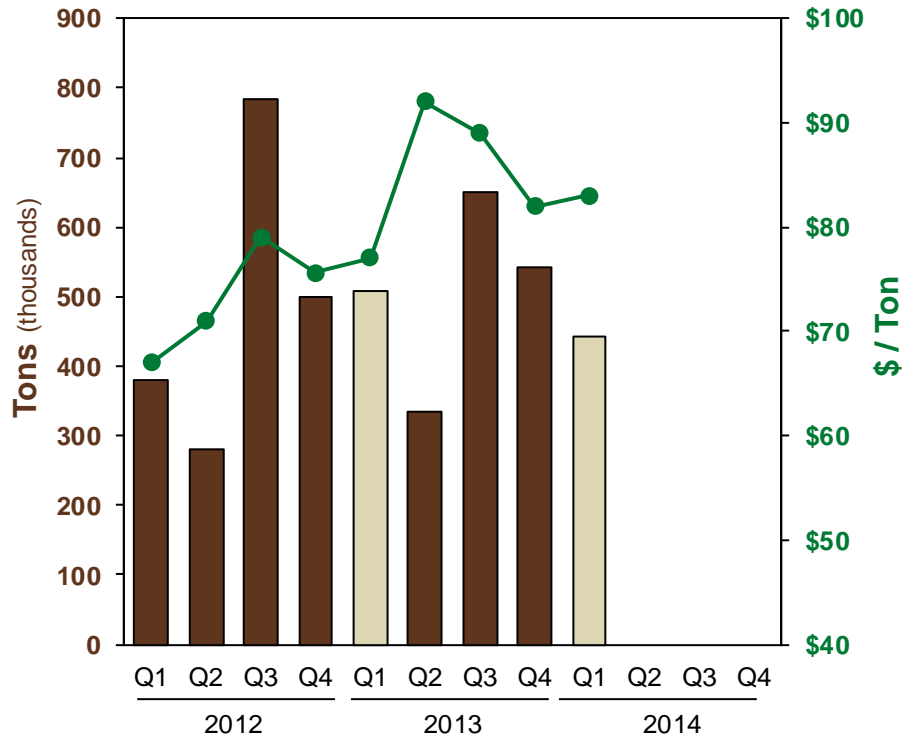
# RESOURCE: Segment Summary

- Year-over-year 1Q operating income was higher
- Northern sawlog prices remained strong; pulpwood increased due to new contract
- Lower Southern realization due to lower mix of hardwood; pine sawlog prices remain flat at historically low levels
- Harvest volumes declined seasonally in 1Q in both regions

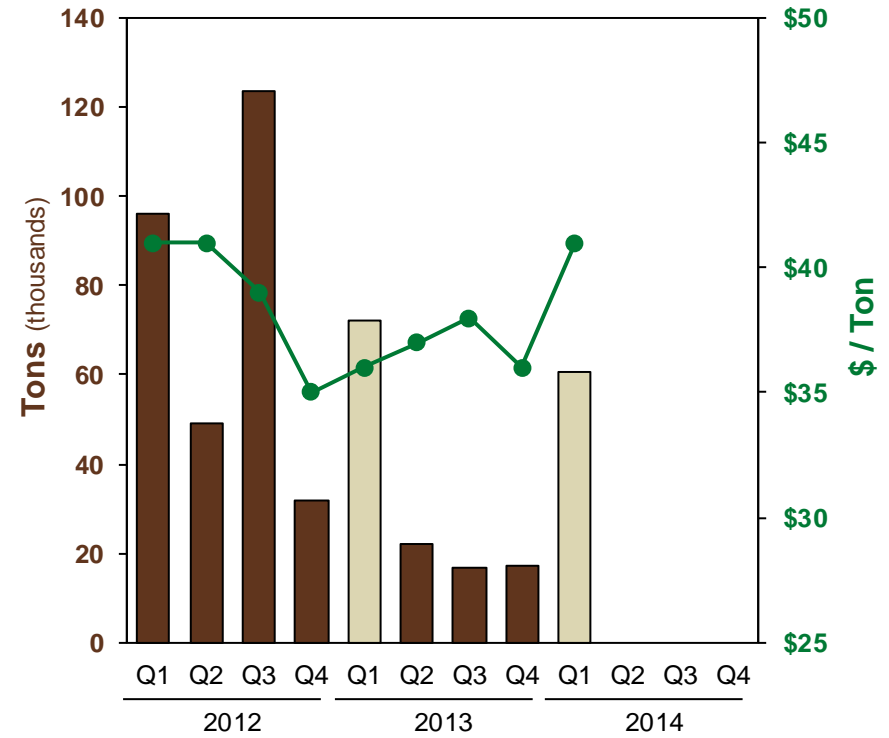


# RESOURCE: Northern Region – Volume and Pricing

## Sawlog



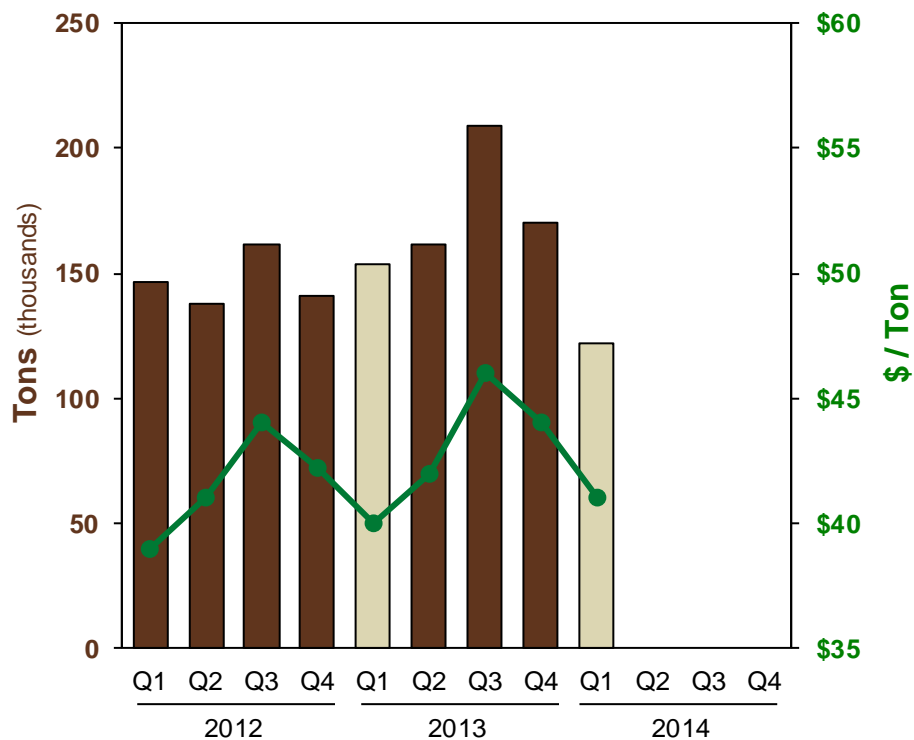
## Pulpwood



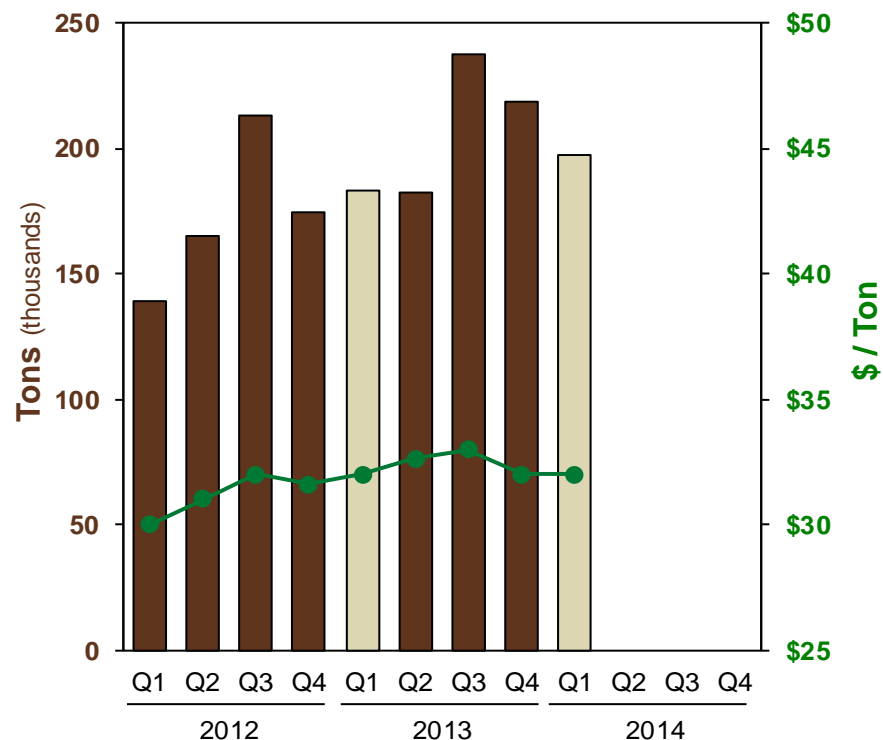
Note: Volumes include tonnage produced from company-owned fee land, while pricing data includes revenue generated from both company-owned fee land and non-fee stumpage purchased from third parties.

# RESOURCE: Southern Region – Volume and Pricing

## Sawlog



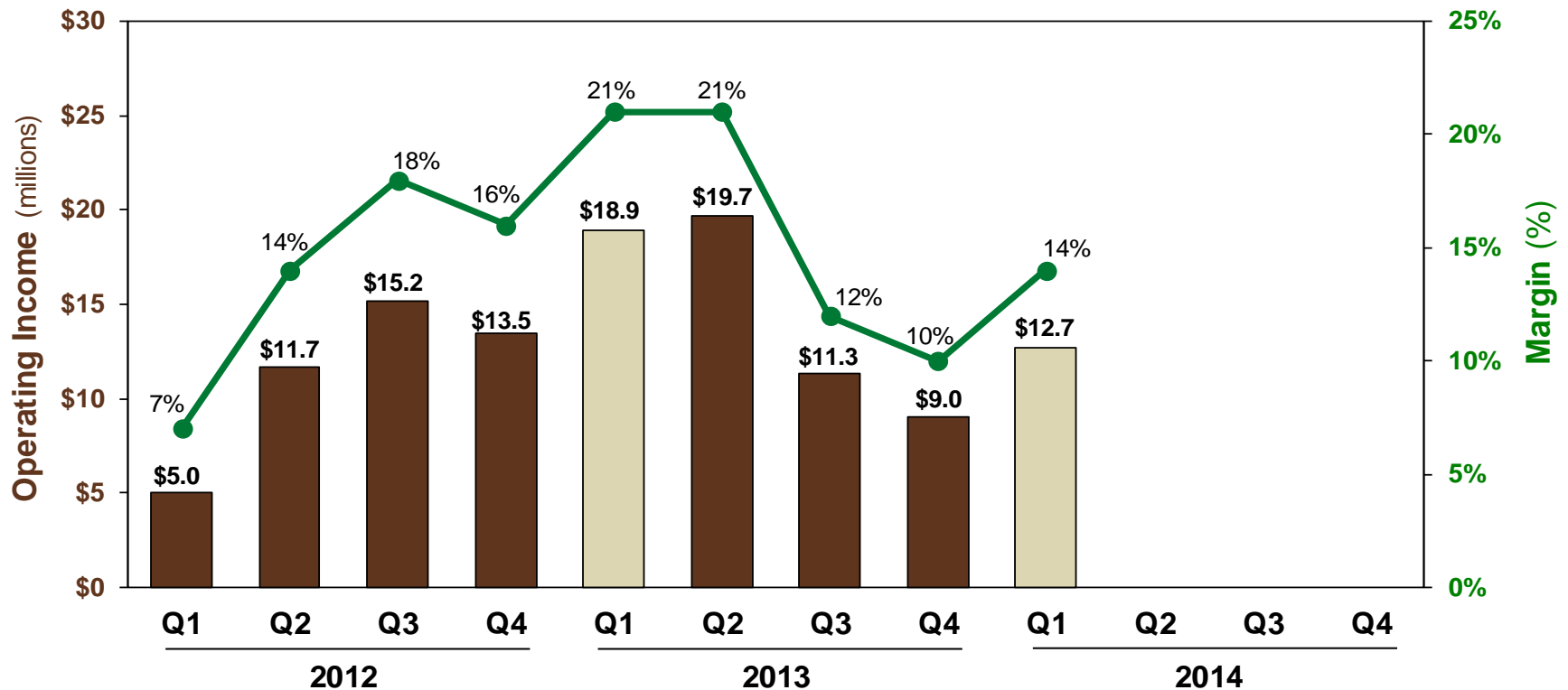
## Pulpwood



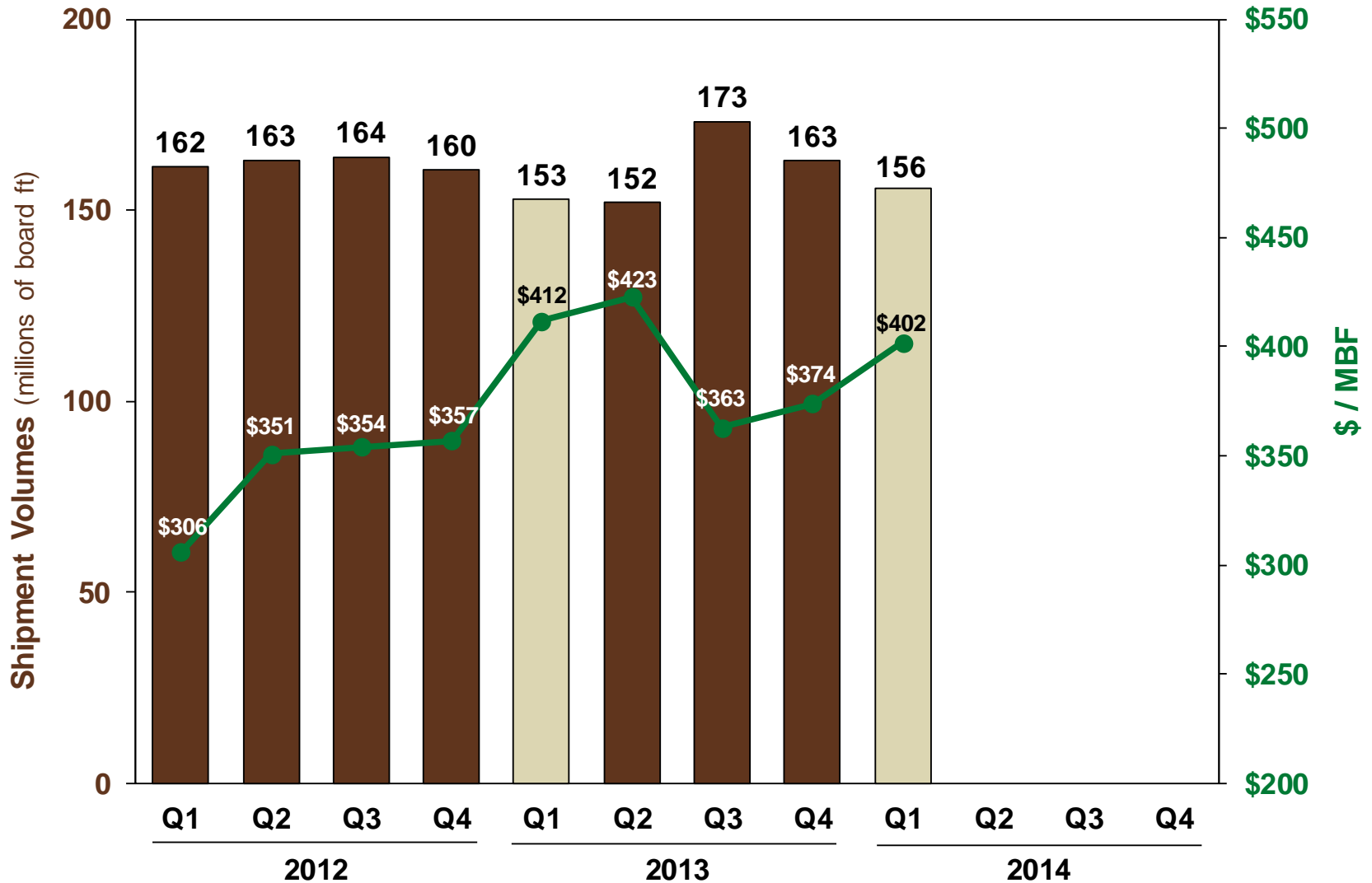
Note: Volumes include tonnage produced from company-owned fee land, while pricing data includes revenue generated from both company-owned fee land and non-fee stumpage purchased from third parties.

# WOOD PRODUCTS: Segment Summary

- Operating earnings increased sequentially due primarily to price
- The direct effect of winter weather on operations was not significant; some shipments carry over to 2Q
- Expect demand and prices to strengthen as housing starts increase



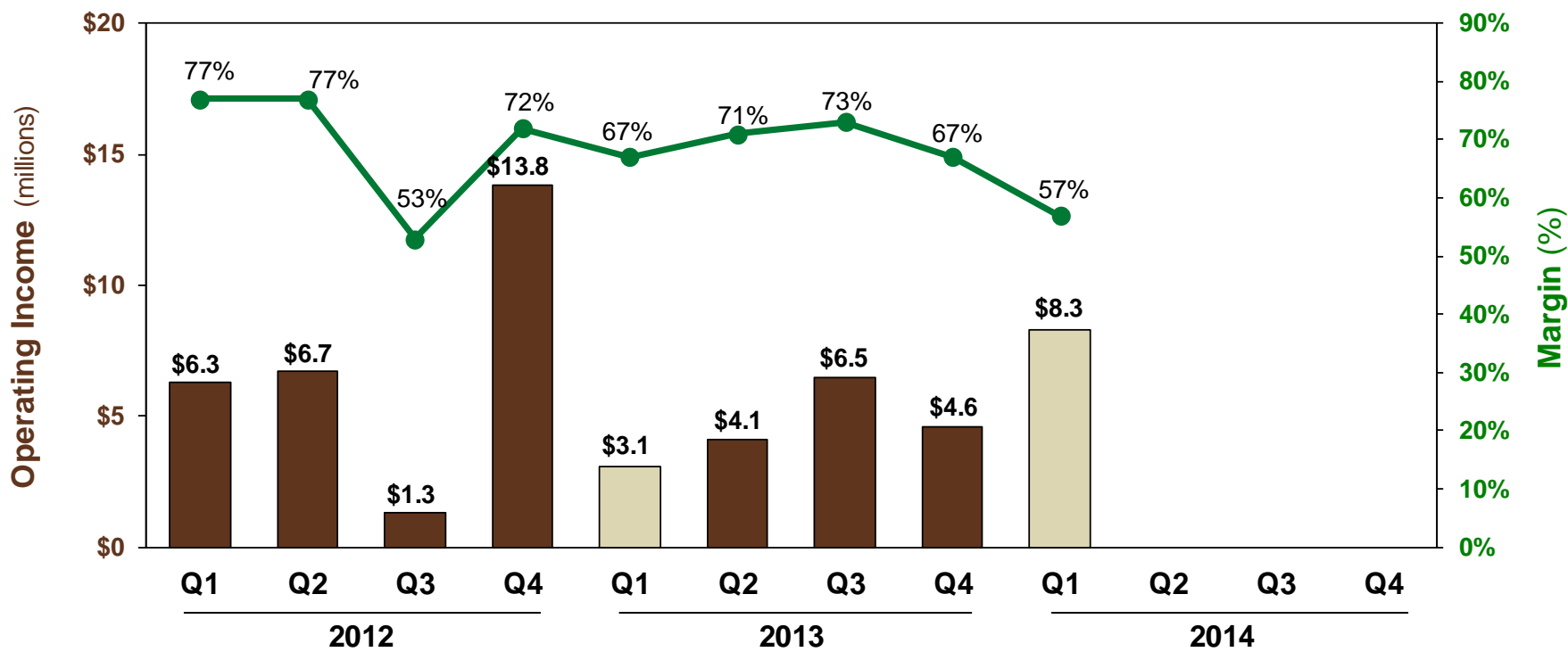
# WOOD PRODUCTS: Lumber – Sales Prices and Shipments





# REAL ESTATE: Segment Summary

- Closed sale of 11,000 acres of rural recreation property in Idaho in 1Q
- Expect margin to increase as mix shifts in rest of 2014



# FINANCIAL HIGHLIGHTS

## Amounts as of March 31, 2014:

(unaudited, \$ in millions)

Cash and short-term investments	\$ 76.3
Long-term debt	\$ 320.0
Pension liability	\$ 42.4
Undrawn revolver	\$ 248.7
Leverage ratio <sup>(1)</sup>	2.16
Net debt to enterprise value <sup>(2)</sup>	13.5%
Dividend yield <sup>(3)</sup>	3.6%

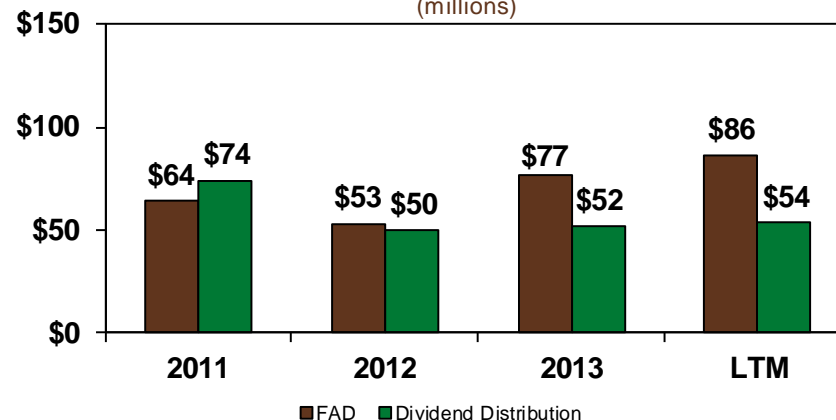
(1) Leverage ratio, as defined in our debt covenants, is funded indebtedness divided by EBITDA. EBITDA is a non-GAAP measure. See slide 14 for reconciliation.

(2) 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, less cash and short-term investments. Net debt (\$244) plus market capitalization (\$1,570) equals enterprise value. Market capitalization is as of March 31, 2014.

(3) Based on the closing stock price of \$38.69 per share as of March 31, 2014.

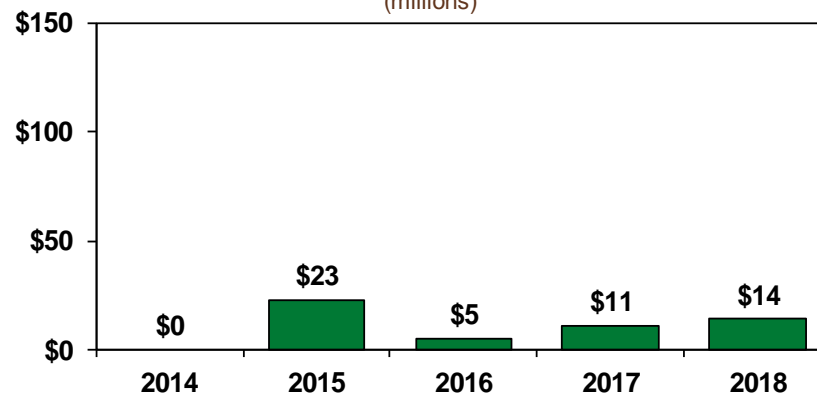
## Funds Available for Distribution<sup>(1)</sup>

(millions)



## Debt Maturities for the Next Five Years

(millions)



(1) FAD is a non-GAAP measure. See slide 16 for a reconciliation of FAD.

# Appendix



# STATISTICS: Resource

(unaudited)

Fee Volumes (tons)	2013				2014
	Q1	Q2	Q3	Q4	Q1
<b>Northern Region</b>					
Sawlog	507,346	333,924	649,063	541,304	443,084
Pulpwood	72,359	21,904	16,538	17,197	60,579
Stumpage	20,470	1,489	1,537	1,901	10,968
Total	600,175	357,317	667,138	560,402	514,631
<b>Southern Region</b>					
Sawlog	153,280	161,410	209,121	170,336	121,910
Pulpwood	182,918	182,262	237,511	219,090	197,829
Stumpage	-	-	181	8,172	4,975
Total	336,198	343,672	446,813	397,598	324,714
Total Fee Volume	936,373	700,989	1,113,951	958,000	839,345
<b>Sales Price/Unit (\$ per ton)</b>					
<b>Northern Region</b>					
Sawlog	\$ 77	\$ 92	\$ 89	\$ 82	\$ 83
Pulpwood	\$ 36	\$ 37	\$ 38	\$ 36	\$ 41
<b>Southern Region</b>					
Sawlog	\$ 40	\$ 42	\$ 46	\$ 44	\$ 41
Pulpwood	\$ 32	\$ 33	\$ 33	\$ 32	\$ 32

# STATISTICS: Wood Products & Real Estate

(unaudited)

	2013				2014
	Q1	Q2	Q3	Q4	Q1
<b>Wood Products</b>					
Lumber Shipments (MBF)	152,862	151,967	173,355	163,033	155,596
Lumber Sales Prices (\$ per MBF)	\$ 412	\$ 423	\$ 363	\$ 374	\$ 402
<b>Real Estate</b>					
Acres Sold					
HBU Development	229	534	2,899	1,137	68
Rural Real Estate	2,278	3,110	2,116	1,990	13,203
Non-Strategic Timberlands	979	1,128	279	2,283	228
	3,486	4,772	5,294	5,410	13,499
Revenues by Product Type (millions)					
HBU Development	\$ 0.6	\$ 1.1	\$ 6.0	\$ 2.1	\$ 0.2
Rural Real Estate	3.2	4.0	2.7	2.5	14.0
Non-Strategic Timberlands	0.8	0.7	0.2	2.3	0.2
	\$ 4.6	\$ 5.8	\$ 8.9	\$ 6.9	\$ 14.4
Sales Price per Acre					
HBU Development	\$ 2,802	\$ 2,053	\$ 2,055	\$ 1,813	\$ 2,783
Rural Real Estate	\$ 1,416	\$ 1,279	\$ 1,295	\$ 1,254	\$ 1,066
Non-Strategic Timberlands	\$ 785	\$ 652	\$ 608	\$ 1,004	\$ 793
Transactions by Product Type					
HBU Development	8	13	18	16	4
Rural Real Estate	25	36	30	13	20
Non-Strategic Timberlands	8	16	5	12	3
	41	65	53	41	27

# EBITDA RECONCILIATION

(unaudited, \$ in millions)

	2013				2014
	Q1	Q2	Q3	Q4	Q1
GAAP net income	\$ 15.5	\$ 19.2	\$ 22.2	\$ 13.7	\$ 20.3
Interest expense, net <sup>(1)</sup>	6.3	5.7	5.5	5.6	5.5
Income tax provision	4.8	4.6	3.2	1.3	5.5
Depreciation, depletion & amortization	6.4	4.8	7.7	6.6	5.8
Basis of real estate sold	0.4	0.4	1.1	1.0	4.6
<b>EBITDA<sup>(2)</sup></b>	<b>\$ 33.4</b>	<b>\$ 34.7</b>	<b>\$ 39.7</b>	<b>\$ 28.2</b>	<b>\$ 41.7</b>

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

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

# EBITDA RECONCILIATION: By Segment

(unaudited, \$ in millions)

	2013				2014
	Q1	Q2	Q3	Q4	Q1
<b>Resource</b>					
Operating Income	\$ 15.5	\$ 14.5	\$ 25.4	\$ 18.0	\$ 16.2
Depreciation, depletion and amortization	4.6	3.0	5.9	4.6	3.9
Resource EBITDA	20.1	17.5	31.3	22.6	20.1
<b>Wood Products</b>					
Operating income	18.9	19.7	11.3	9.0	12.7
Depreciation and amortization	1.5	1.5	1.6	1.6	1.5
Wood Products EBITDA	20.4	21.2	12.9	10.6	14.2
<b>Real Estate</b>					
Operating Income	3.1	4.1	6.5	4.6	8.3
Basis of Land and depreciation	0.6	0.6	1.2	1.2	5.2
Real Estate EBITDA	3.7	4.7	7.7	5.8	13.5
Eliminations and adjustments <sup>(1)</sup>	0.5	0.2	(0.8)	(0.8)	0.8
<b>Corporate</b>					
Corporate expense	(10.6)	(7.3)	(10.5)	(10.2)	(6.7)
Environmental remediation charge	(0.8)	(1.7)	(1.0)	-	-
Depreciation, amortization and basis of land adjustment	0.1	0.1	0.1	0.2	(0.2)
Corporate EBITDA	(11.3)	(8.9)	(11.4)	(10.0)	(6.9)
<b>EBITDA<sup>(2)</sup></b>	<b>\$ 33.4</b>	<b>\$ 34.7</b>	<b>\$ 39.7</b>	<b>\$ 28.2</b>	<b>\$ 41.7</b>

(1) Eliminations and adjustments represent intersegment revenues between the Resource and Wood Products segments.

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

# FFO & FAD RECONCILIATION

(unaudited, \$ in millions)

	2013				2014
	Q1	Q2	Q3	Q4	Q1
GAAP net income	\$ 15.5	\$ 19.2	\$ 22.2	\$ 13.7	\$ 20.3
Depreciation, depletion & amortization <sup>(1)</sup>	6.9	5.2	8.0	6.9	6.1
Basis of real estate sold	0.4	0.4	1.1	1.0	4.6
<b>Funds from Operations<sup>(2)</sup></b>	<b>\$ 22.8</b>	<b>\$ 24.8</b>	<b>\$ 31.3</b>	<b>\$ 21.6</b>	<b>\$ 31.0</b>
Capital expenditures	(4.6)	(5.8)	(6.5)	(6.7)	(3.6)
<b>Funds Available for Distribution<sup>(3)</sup></b>	<b>\$ 18.2</b>	<b>\$ 19.0</b>	<b>\$ 24.8</b>	<b>\$ 14.9</b>	<b>\$ 27.4</b>

(1) Depreciation, depletion & amortization includes amortized interest expense from bond discounts and deferred loan fees.

(2) 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. 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.

(3) Funds Available for Distribution (FAD), as we define it, is net income (loss) 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)

	2013				2014
	Q1	Q2	Q3	Q4	Q1
Current assets	\$ 122.9	\$ 120.3	\$ 134.9	\$ 130.4	\$ 139.1
Less: current liabilities	(68.0)	(58.6)	(59.3)	(50.3)	(49.5)
Working capital	54.9	61.7	75.6	80.1	89.6
Less: Cash	(4.3)	(6.4)	(6.0)	(5.6)	(9.4)
Less: Short-term investments	(55.4)	(44.1)	(56.8)	(52.3)	(66.9)
Add: Current installments on long-term debt	9.0	-	-	-	-
<b>Operating Working Capital</b>	<b>\$ 4.2</b>	<b>\$ 11.2</b>	<b>\$ 12.8</b>	<b>\$ 22.2</b>	<b>\$ 13.3</b>

