

# Potlatch Corporation

**Eric J. Cremers**  
President & Chief Operating Officer



September 2014 Investor Presentation



# Forward-Looking Statements & Non-GAAP Measures

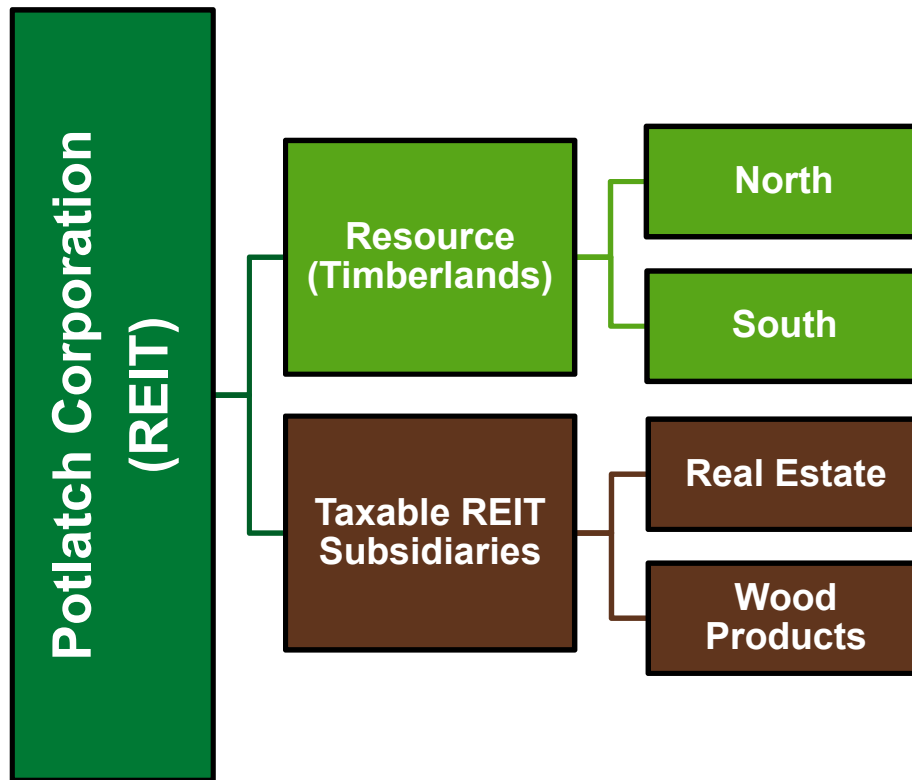
## FORWARD-LOOKING STATEMENTS

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 future company performance, the company's business model, direction of markets and the economy, forecast of U.S. housing starts, forecast U.S. lumber consumption, incremental lumber production from the U.S. South, forecast U.S. lumber supply, ability to increase or decrease harvest volume to meet market conditions, effect of increased manufacturing in the South on lumber prices, effect of increased harvest or increased sawlog prices on EBITDA in the North and South regions, effect of increased lumber prices on EBITDA, forecast harvest in 2014, forecast North American log and lumber exports to China, log, lumber and panel price trends, effect of mountain pine beetle and allowable cut on Canadian supply, forecast of inventory of available live and dead lodgepole pine in B.C., debt maturities, cash flows, management of timberlands to optimize values, real estate value opportunities, real estate business potential and land development potential, typical annual "same-store" sales, expected 2014 real estate sales, and similar 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 the company's lands; changes in timber prices; changes in policy regarding governmental timber sales; changes in the United States and international economies; changes in the level of domestic construction activity; changes in international tariffs, quotas and trade agreements involving wood products; changes in domestic and international demand for wood products; changes in production and production capacity in the forest products industry; competitive pricing pressures for the company's products; unanticipated manufacturing disruptions; changes in general and industry-specific environmental laws and regulations; unforeseen environmental liabilities or expenditures; weather conditions; changes in fuel and energy costs; changes in raw material 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; satisfaction of closing conditions for large Q2 transaction; and other risks and uncertainties described from time to time in the company's public filings with the Securities and Exchange Commission. All forward-looking statements are made as of the date of this presentation, and the company does 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).

# Company Structure & Overview



- **Converted to tax efficient REIT in 2006**
  - ✓ Single level of taxation
  - ✓ Lower cost of capital
- **Fourth largest U.S. Timber REIT**
  - ✓ 1.4 million acres of owned timberland
  - ✓ High margin, low risk real estate business
  - ✓ Five wood products manufacturing facilities
- **Enterprise value of \$1.9 billion**
  - ✓ Market cap<sup>(1)</sup> of ~\$1.7 billion
  - ✓ Net debt<sup>(2)</sup> of ~\$0.2 billion
- **Headquartered in Spokane, Washington**
- **Founded in 1903**

(1) Based on September 2, 2014 closing stock price of \$42.93 per share.

(2) Non-GAAP measure – see slide 21 for reconciliation.

# Potlatch Overview

*Potlatch owns 1.4 million acres of certified timberland and produces about 650 million board feet of lumber and 160 million square feet of plywood.*



## Timberlands<sup>(1)</sup>

Idaho	791,000 acres
Arkansas	410,000 acres
Minnesota	183,000 acres
<b>Total</b>	<b><u>1,384,000 acres</u></b>

(1) As of June 30, 2014.

# Key Drivers Are Favorable

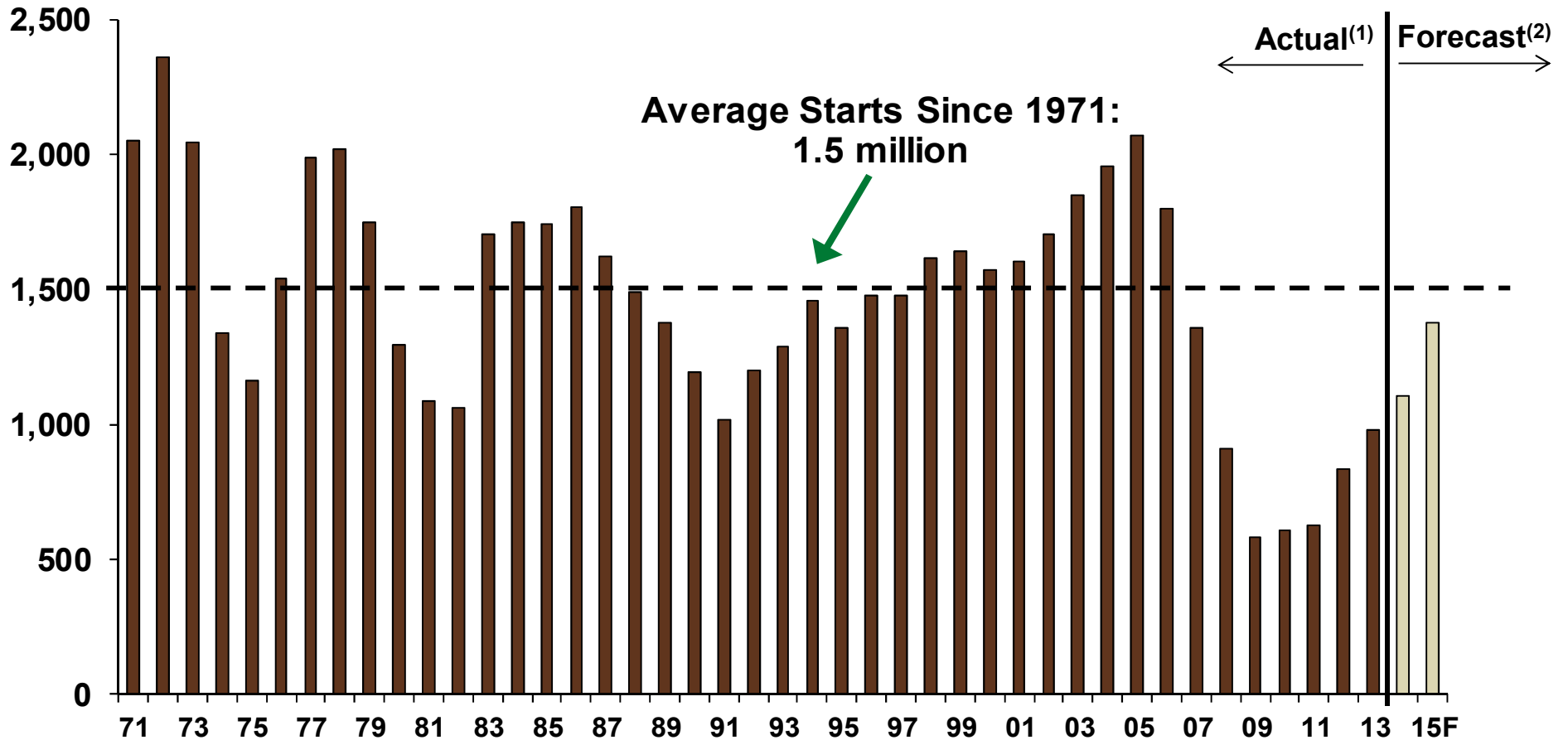
- **U.S. housing starts are recovering which drives higher lumber demand**
- **Canada's ability to participate in U.S. recovery is limited by effect of the pine beetle and reduction in allowable cut**
- **Incremental lumber production will come from the U.S. South**
- **North American exports to China are robust and here to stay**
- **Log and lumber prices are expected to increase**



# Total U.S. Housing Starts

(in thousands)

*Housing starts are recovering, but still far below the long-term average.  
Forecasters calling for starts above long-term trend in second half of decade.*

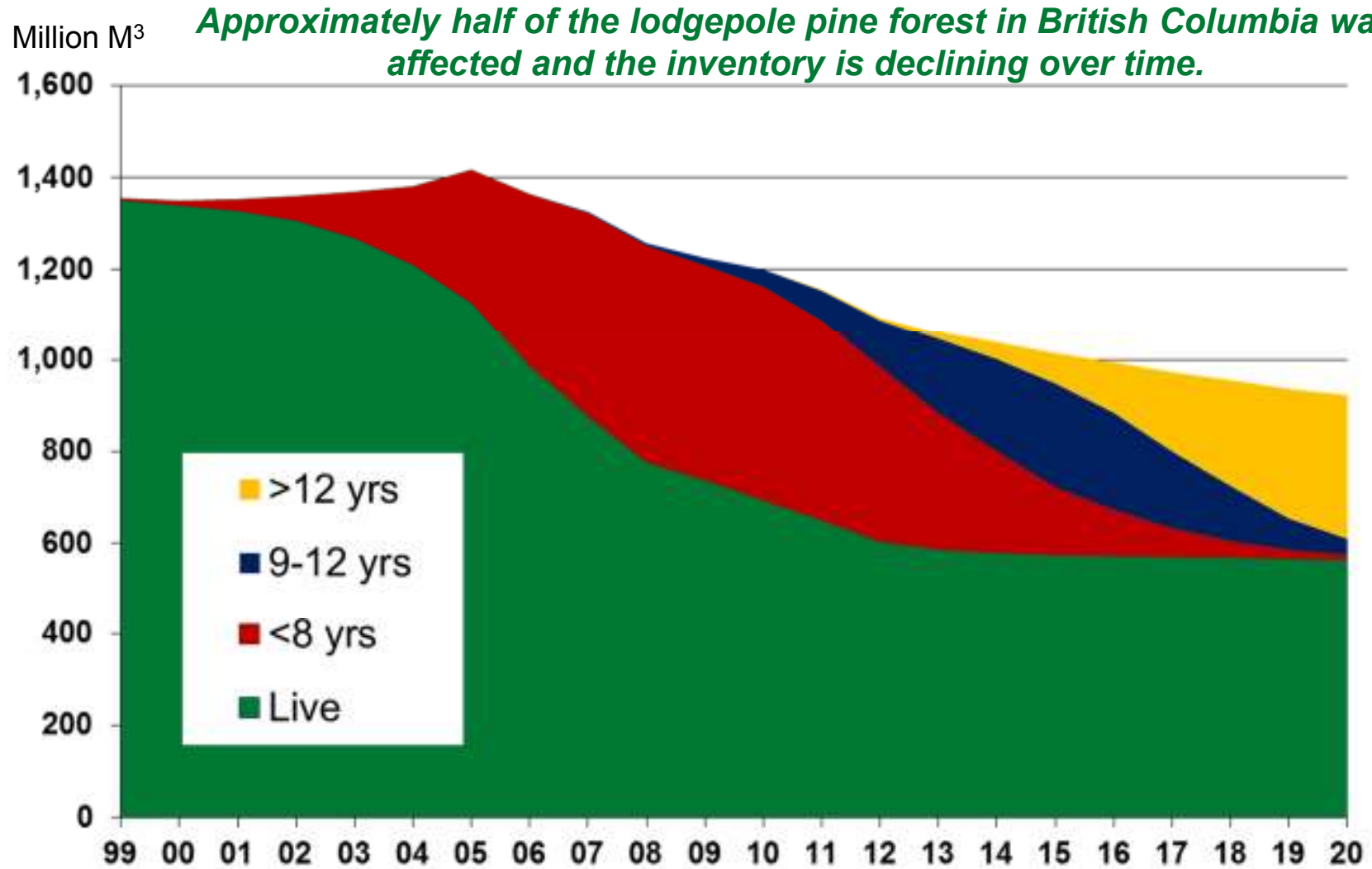


(1) Source: U.S. Census Bureau.

(2) Forecast based on average of 8 different economic forecasting firms.

# Inventory of Available Live and Dead Lodgepole Pine in BC

By Years Since Attack, 1999-2020

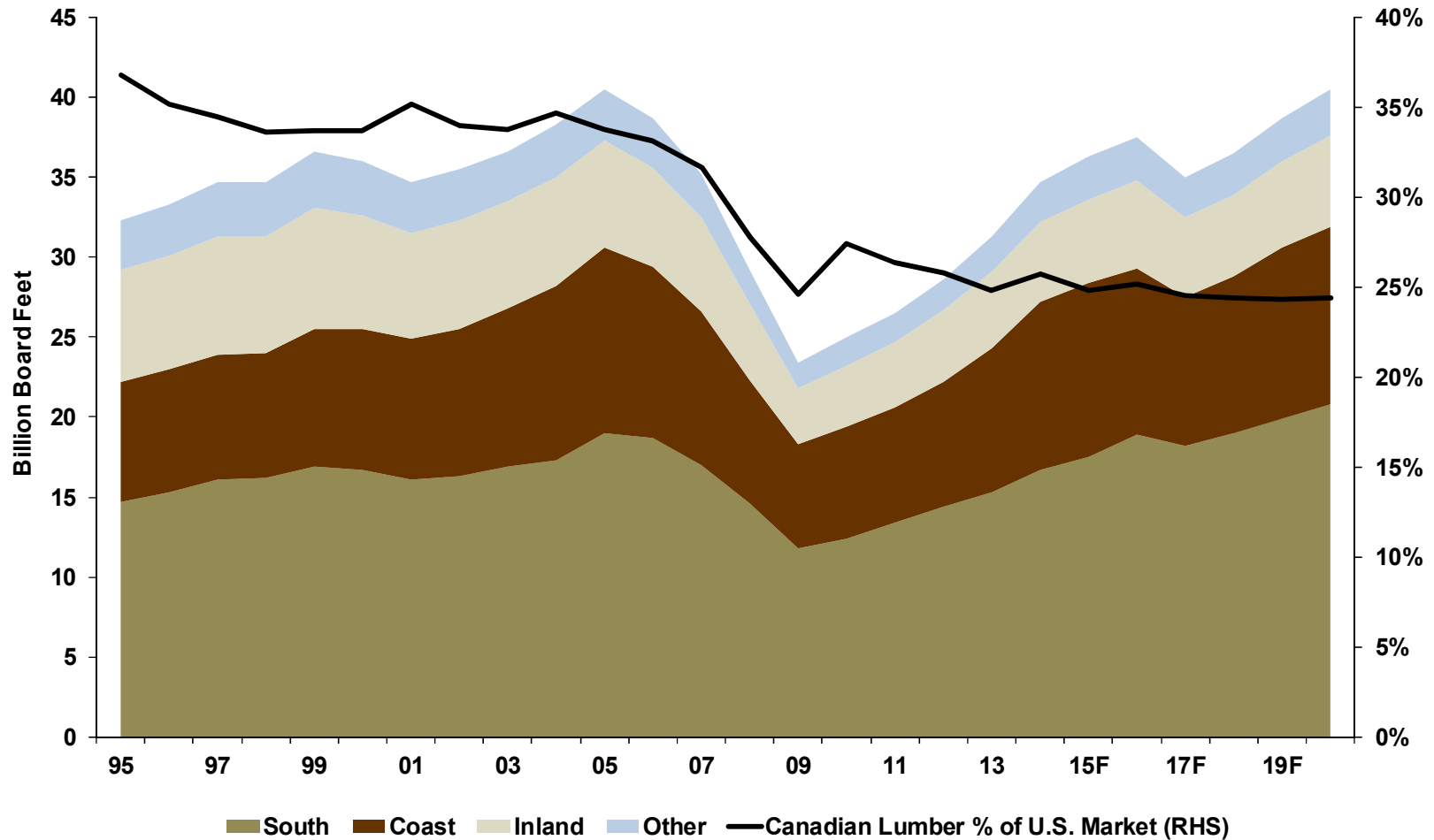


Source: FEA estimates

# U.S. Lumber Supply

(billion board feet)

*Incremental volume needed to satisfy increasing lumber demand will come from the U.S. South.*



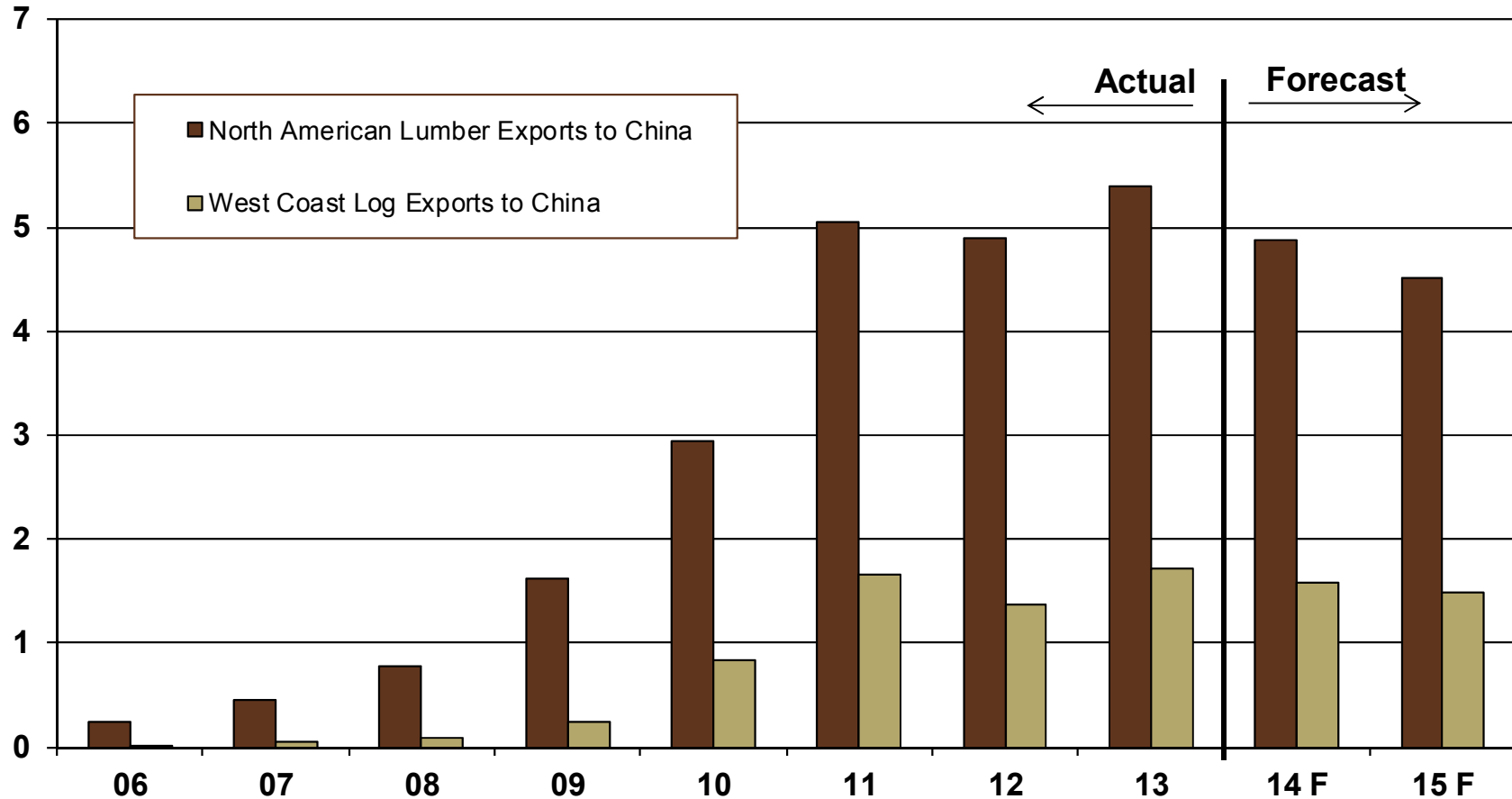
Source: RISI 15-Year Forecast, July 2014.



# North American Lumber and Log Exports to China

(billion board feet)

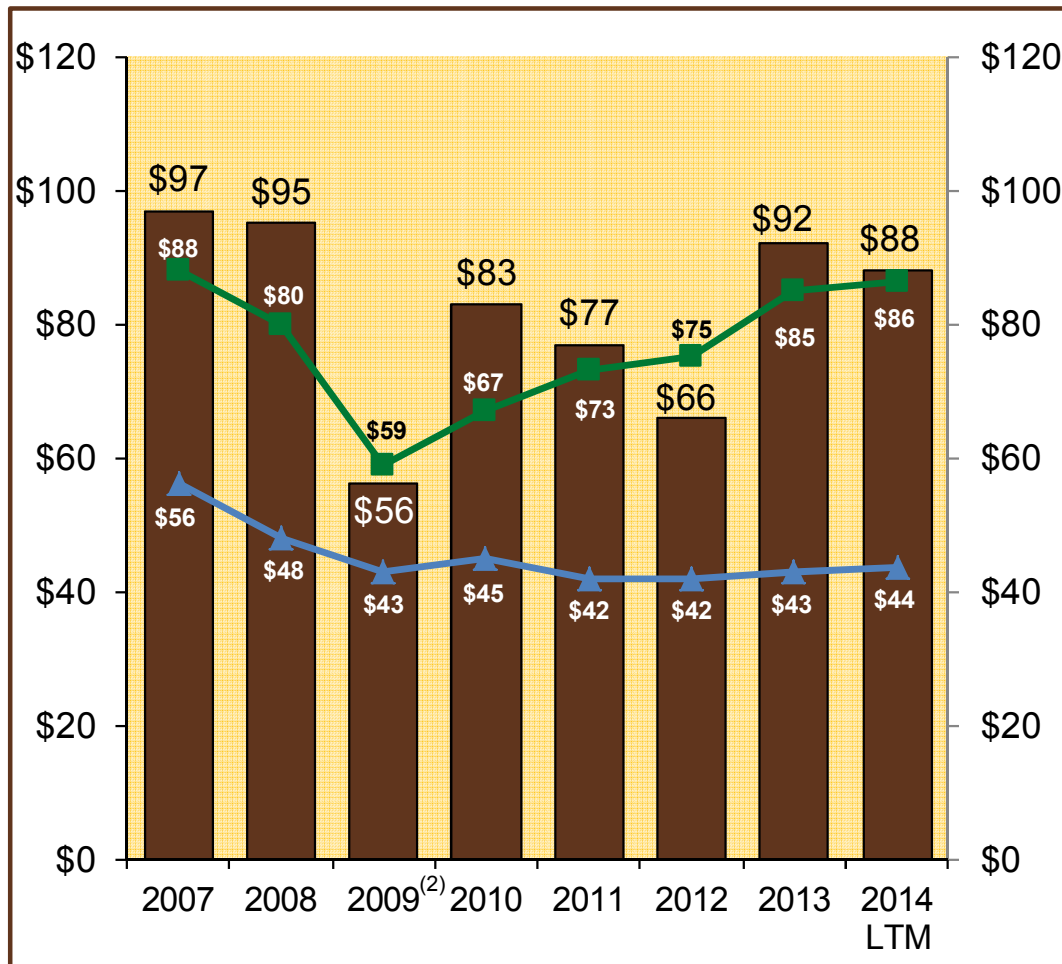
*Exports to China are here to stay and tension the U.S. market.*



Source: FEA (Lumber export to China), ClearVision (Log export to China).

# Resource: Segment Overview

■ EBITDA(1) (in millions) ■ Northern Sawlog (price per ton) ▲ Southern Sawlog (price per ton)



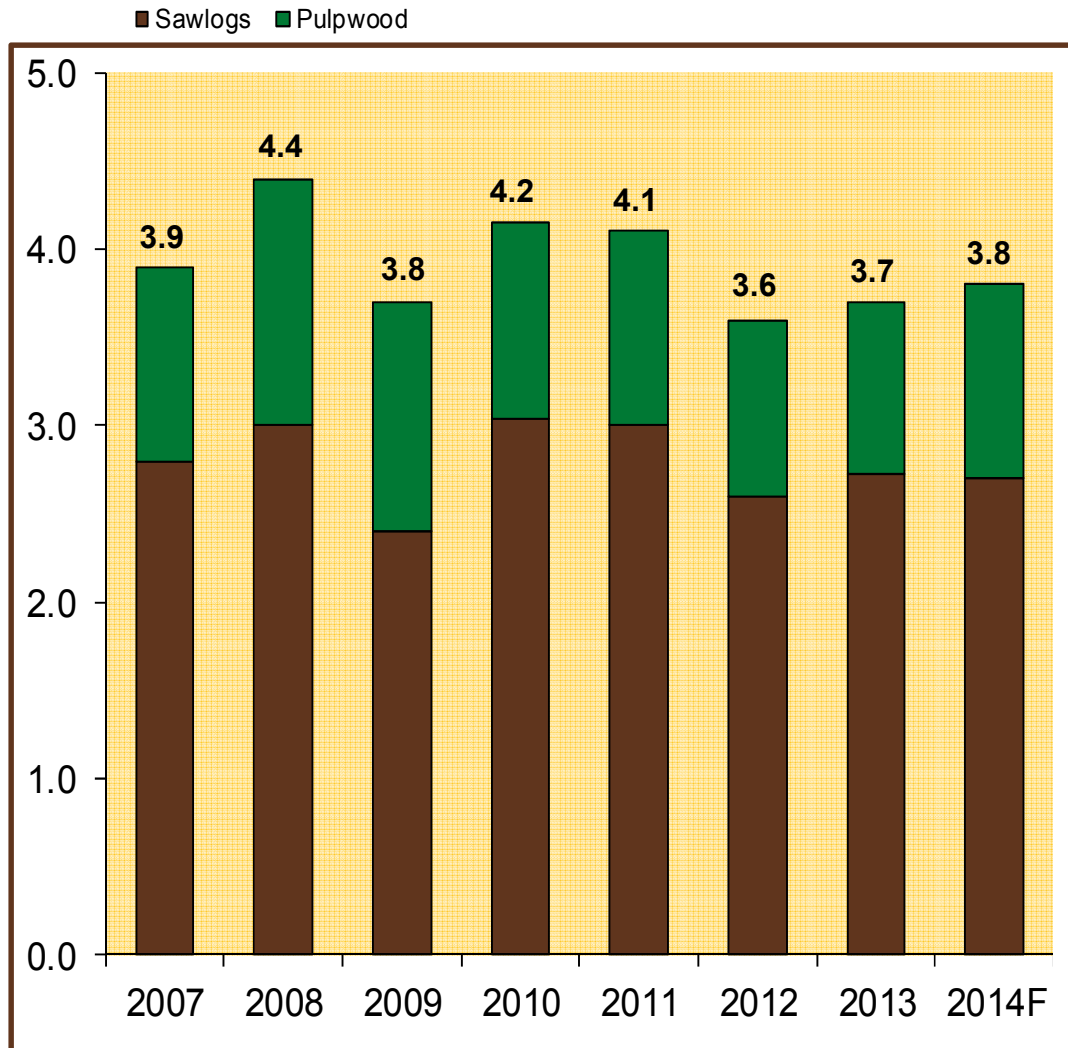
- **Stable and significant source of cash since REIT conversion**
- **Increased 2013 EBITDA driven by recovery of Northern sawlog prices**
- **Southern sawlog prices have not yet recovered**
  - ✓ The South is poised to supply wood needed to satisfy higher U.S. housing starts
  - ✓ Increased manufacturing in region will be catalyst for higher Southern sawlog prices
- **At current volumes, a \$5/ton change in sawlog prices ≈**
  - ✓ \$10 million in annual EBITDA in North
  - ✓ \$4 million in annual EBITDA in South

(1) Non-GAAP measure – see slide 20 for reconciliation.

(2) Excludes \$49 million timber deed sale.

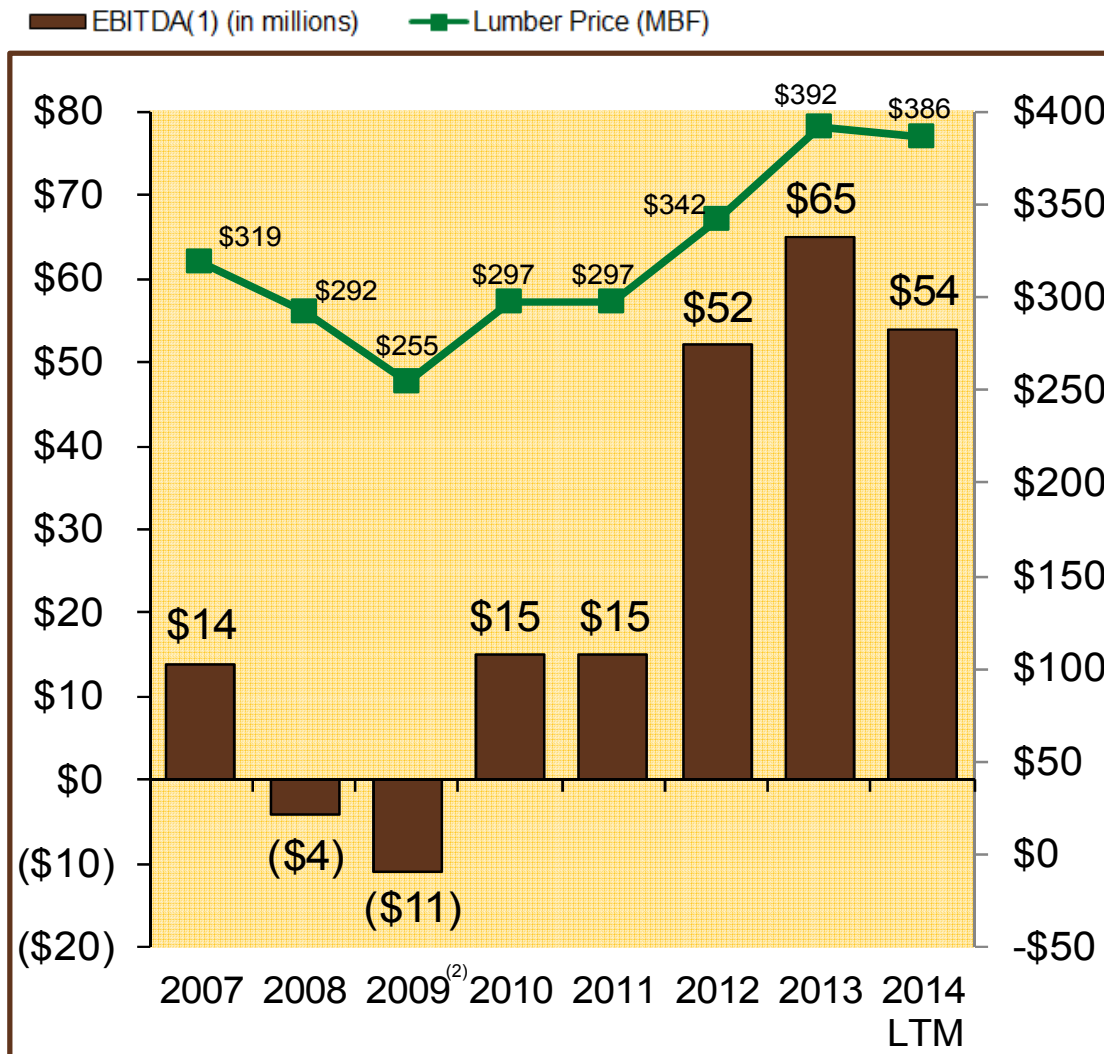
# Resource: Harvest Profile

(tons in millions)



- We preserved value by reducing harvest in the South during the downturn
- At current prices, a 100,000 ton change in sawlog harvest ≈
  - ✓ \$5 million in annual EBITDA in North
  - ✓ \$2 million in annual EBITDA in South
- Approximately 75% of log volume is sold to third party customers

# Wood Products: Segment Overview



- We operate four top-quartile sawmills
- We sell lumber to wholesalers for use in homebuilding and construction
- Our industrial grade plywood mill sells higher grade panels at a premium
- Higher EBITDA driven largely by lumber prices

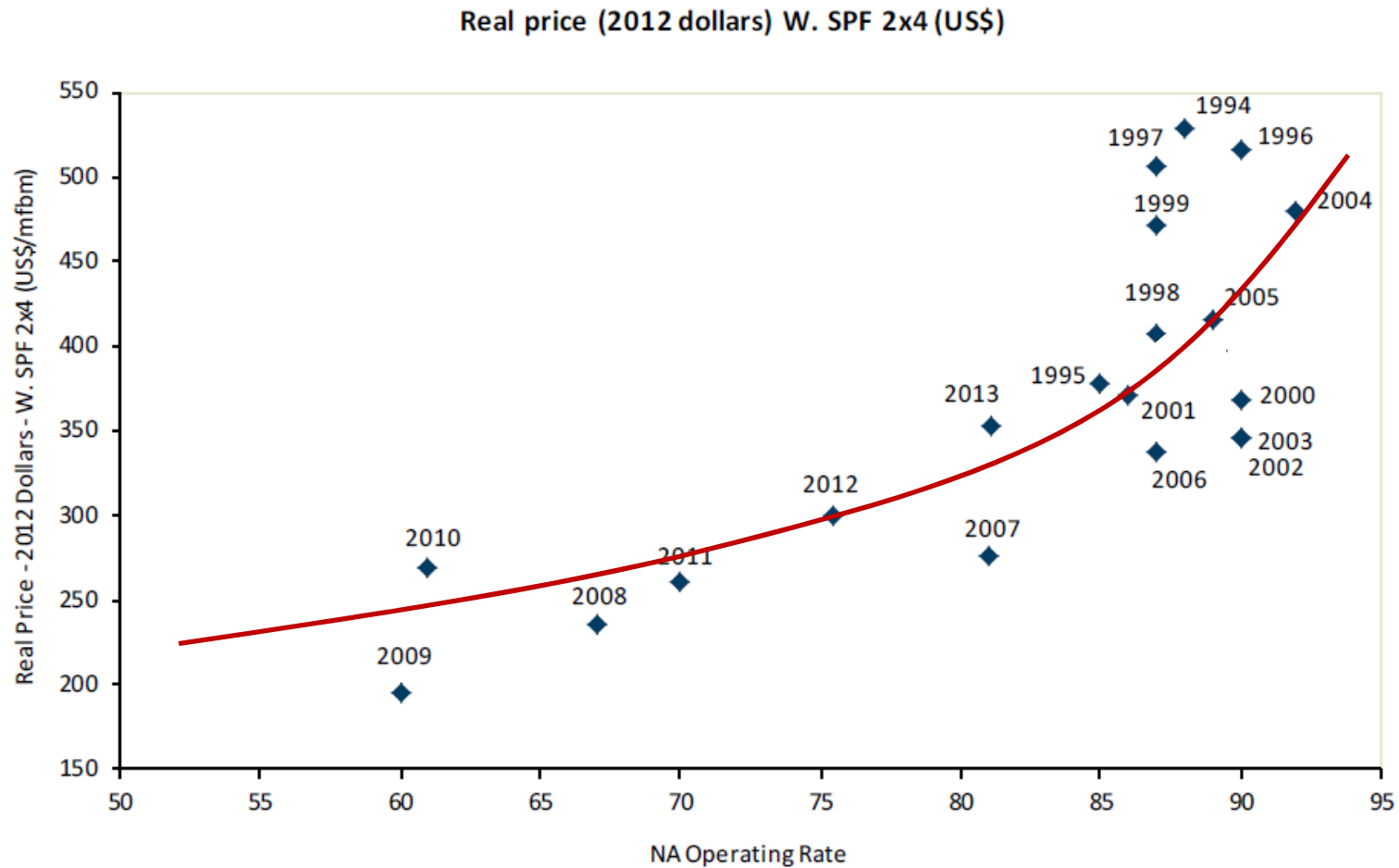
A \$10/mbf change in lumber price  
≈ \$6 million in annual EBITDA



(1) Non-GAAP measure – see slide 20 for reconciliation.  
 (2) Includes asset impairment charge of \$3 million.

# Real Price vs. Capacity Utilization

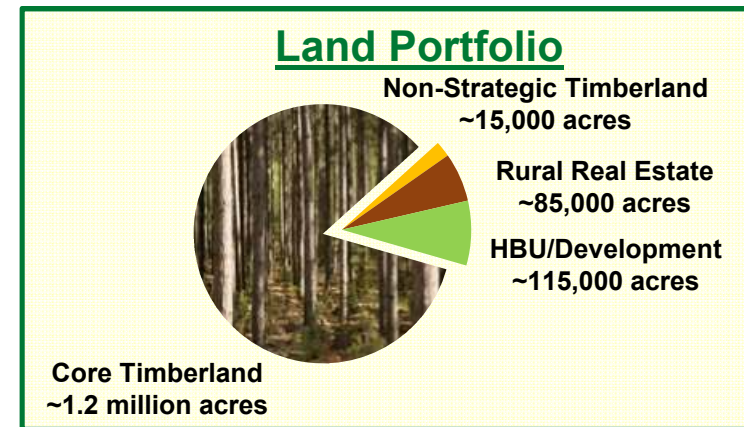
*Lumber prices increase as manufacturing capacity utilization increases.*



Source: Random Lengths, RISI, RBC Capital Markets estimates.

# Real Estate: Segment Overview

- **Continually assess acreage and maximize value by selling non-core holdings at significant multiples to timberland values**
- **Business has low risk, high margin attributes**
- **Portfolio consists of desirable property**
  - ✓ More than 3,000 miles of water frontage
  - ✓ More than 9 million people live within three states of ownership
- **Activity can be lumpy**
  - ✓ Typically plan “same-store” sales of 20,000 to 25,000 acres per year
  - ✓ Opportunistically sell additional tracts at compelling premiums
- **Sold close to 19,000 acres and generated \$22 million<sup>(1)</sup> of EBITDA in 2013**
- **Expect to sell 30,000 to 35,000 acres in 2014**
  - ✓ Includes an 11,000 acre sale closed in Q1
  - ✓ Includes a 9,400 acre sale closed in Q2



(1) Non-GAAP measure – see slide 20 for reconciliation.

# Financial Highlights

## Amounts as of June 30, 2014:

Unaudited, \$ in millions

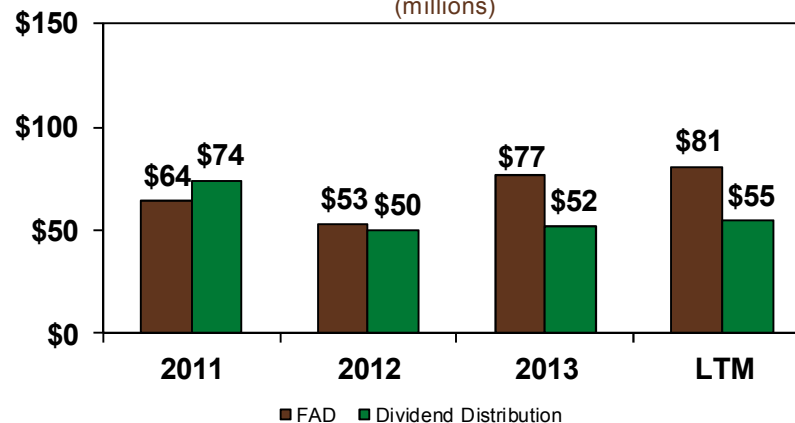
<b>Cash and short-term investments</b>	\$ 83.2
<b>Long-term debt</b>	\$ 320.0
<b>Pension liability</b>	\$ 40.9
<b>Undrawn revolver</b>	\$ 248.6
<b>Net debt to enterprise value<sup>(1)</sup></b>	12.0%
<b>Dividend yield<sup>(2)</sup></b>	3.3%

<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 less cash and short-term investments. Net debt (\$237) plus market capitalization (\$1,740) equals enterprise value. Market capitalization is as of

<sup>(2)</sup> Based on the closing stock price of \$42.93 per share as of Sept. 2, 2014.

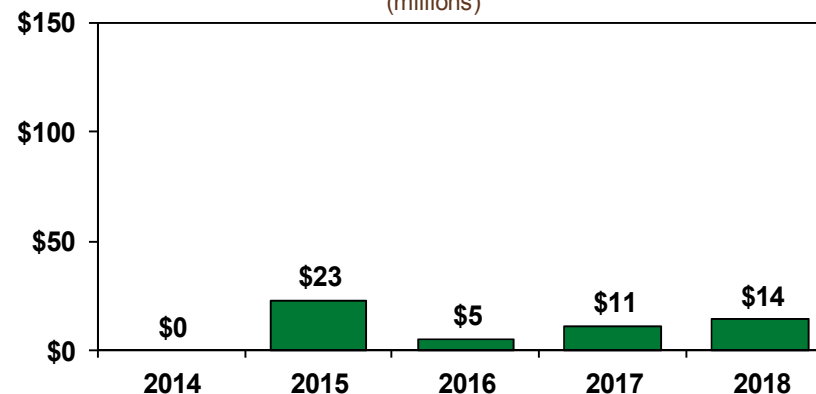
## Funds Available for Distribution

(millions)



## Debt Maturities for the Next Five Years

(millions)



# Conclusion: Investment Takeaways

- **Potlatch manages a very attractive asset base of ~1.4 million acres of timberland**
- **Attractive dividend yield currently at 3.3%<sup>(1)</sup>**
- **Wood Products business is generating strong cash flow**
- **Real Estate segment has low risk, high margin attributes**
- **Long-term industry trends are very favorable**
  - ✓ Housing starts on solid recovery path; expected to be above long-term trend in second half of decade
  - ✓ North American exports to China remain robust
  - ✓ Lower supply from Canada
  - ✓ Log and lumber prices are expected to increase
- **Potlatch is highly leveraged to the housing recovery and higher lumber prices**
  - ✓ These factors also drive higher harvest volumes and log prices

(1) Based on Sept. 2, 2014 closing stock price of \$42.93 per share.

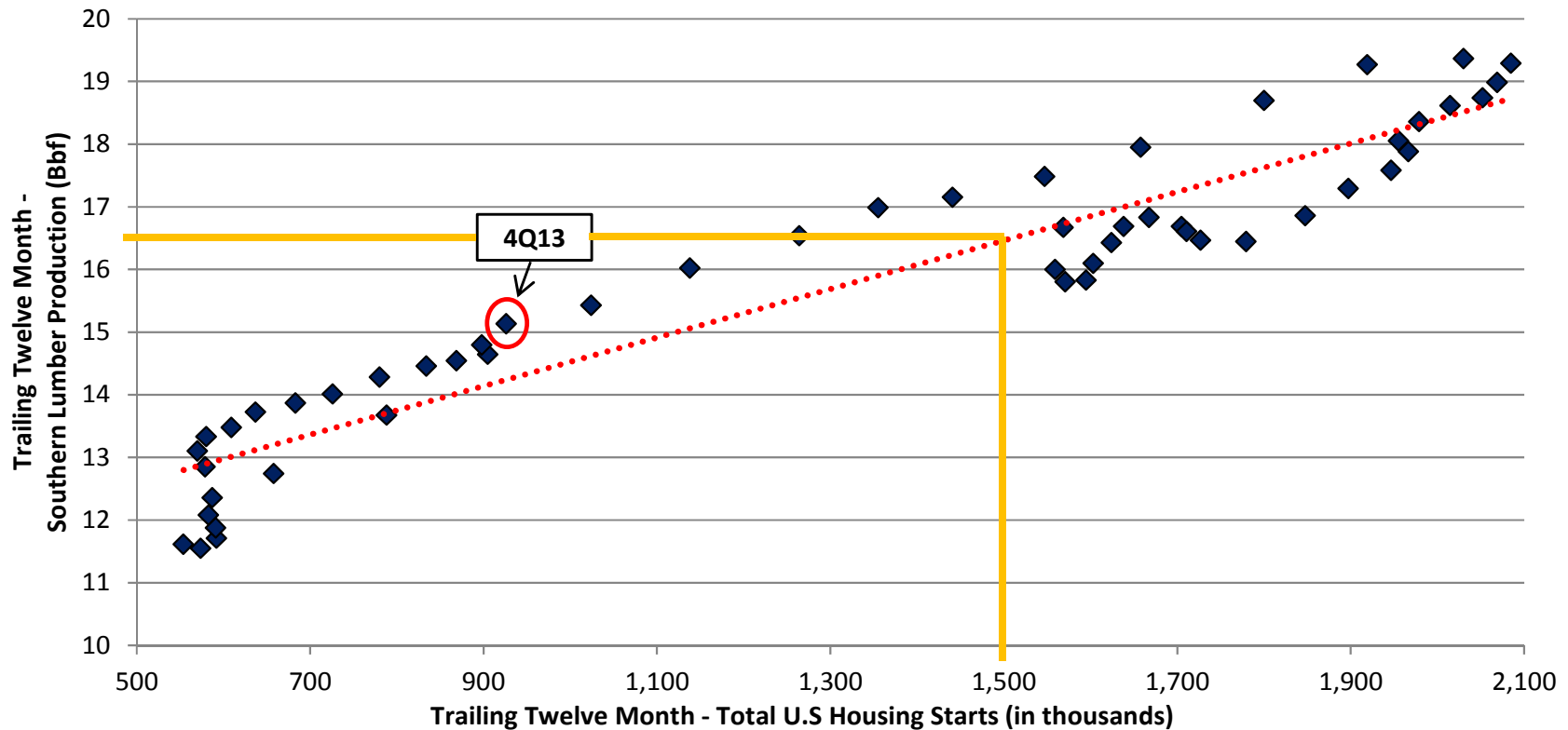


# Appendix



# Southern Lumber Production vs. U.S. Housing Starts

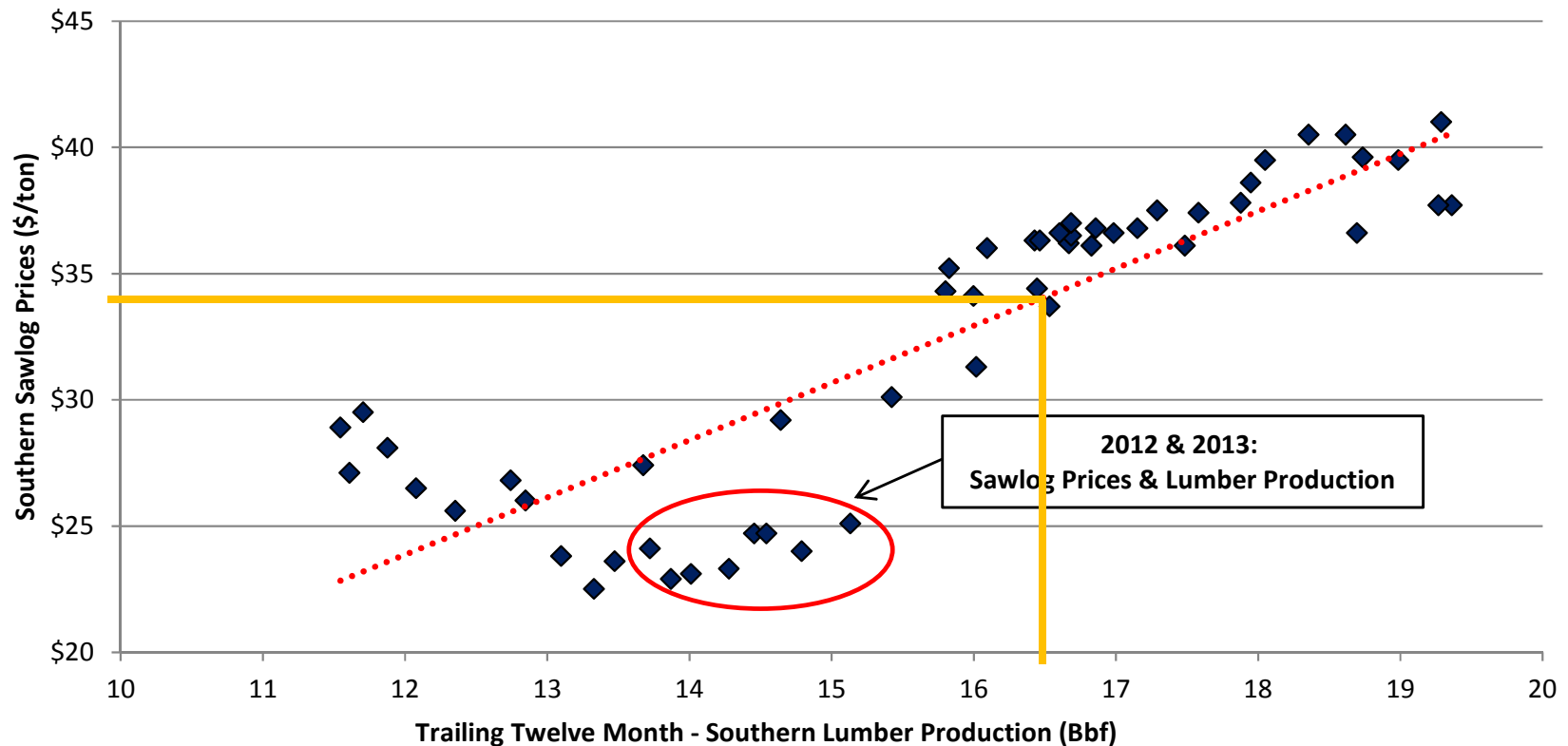
*Southern lumber production will increase as housing starts return to trend level.*



Source: FEA, U.S. Census Bureau, and Raymond James research. Data is from 4Q 2000 – 4Q 2013.

# Southern Sawlog Prices vs. Southern Lumber Production

*Southern sawlog prices are currently below trend and will increase as Southern lumber production increases.*



Source: FEA and Raymond James research. Data is from 4Q 2000 – 4Q 2013.

# EBITDA and Segment EBITDA Reconciliation

(\$ in millions)

	Fiscal Year							
	2007	2008	2009 <sup>(3)</sup>	2010	2011	2012	2013	2014 LTM
<b>Consolidated<sup>(1)</sup></b>								
Net income	\$ 75	\$ 73	\$ 81	\$ 40	\$ 40	\$ 43	\$ 71	\$ 73
Adjustments:								
Income tax (benefit) provision	(18)	(25)	(16)	5	4	17	14	18
Interest expense <sup>(2)</sup>	15	20	22	28	28	26	23	22
Depreciation, depletion and amortization	30	30	33	29	26	23	25	25
Basis of real estate sold	4	9	11	49	14	5	4	9
Non-cash asset impairment and eliminations	-	-	-	-	(2)	-	(1)	-
<b>Consolidated EBITDA</b>	<b>\$ 106</b>	<b>\$ 107</b>	<b>\$ 131</b>	<b>\$ 151</b>	<b>\$ 110</b>	<b>\$ 114</b>	<b>\$ 136</b>	<b>\$ 147</b>
<b>Resource</b>								
Operating income	\$ 82	\$ 76	\$ 82	\$ 62	\$ 60	\$ 50	\$ 74	\$ 70
Depreciation, depletion and amortization	15	19	23	21	17	16	18	18
<b>Resource Segment EBITDA</b>	<b>\$ 97</b>	<b>\$ 95</b>	<b>\$ 105</b>	<b>\$ 83</b>	<b>\$ 77</b>	<b>\$ 66</b>	<b>\$ 92</b>	<b>\$ 88</b>
<b>Wood Products</b>								
Operating income (loss)	\$ 4	\$ (14)	\$ (21)	\$ 7	\$ 7	\$ 45	\$ 59	\$ 48
Depreciation	10	10	10	8	8	7	6	6
<b>Wood Products Segment EBITDA</b>	<b>\$ 14</b>	<b>\$ (4)</b>	<b>\$ (11)</b>	<b>\$ 15</b>	<b>\$ 15</b>	<b>\$ 52</b>	<b>\$ 65</b>	<b>\$ 54</b>
<b>Real Estate</b>								
Operating income	\$ 17	\$ 31	\$ 49	\$ 30	\$ 31	\$ 28	\$ 18	\$ 32
Basis of real estate sold and depreciation	4	9	11	49	14	5	4	10
<b>Real Estate Segment EBITDA</b>	<b>\$ 21</b>	<b>\$ 40</b>	<b>\$ 60</b>	<b>\$ 79</b>	<b>\$ 45</b>	<b>\$ 33</b>	<b>\$ 22</b>	<b>\$ 42</b>

(1) Consolidated amounts exclude amounts related to discontinued operations.

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

(3) Consolidated and Resource EBITDA include a \$49 million timber deed sale. Consolidated and Wood Products EBITDA include a \$3 million asset impairment charge.

# Potlatch Net Debt & FAD Reconciliations

(\$ in millions)

Net Debt	At December 31,							June 30,
	2007	2008	2009	2010	2011	2012	2013	2014
Long-term debt	\$ 321	\$ 221	\$ 368	\$ 363	\$ 345	\$ 349	\$ 320	\$ 320
Current installments on long-term debt	-	101	-	5	22	8	-	-
Current notes payable	110	129	-	-	-	-	-	-
Cash	(9)	(1)	(2)	(6)	(8)	(17)	(6)	(9)
Short-term investments	(22)	(3)	(53)	(85)	(63)	(63)	(52)	(74)
<b>Net debt</b>	<b>\$ 400</b>	<b>\$ 447</b>	<b>\$ 313</b>	<b>\$ 277</b>	<b>\$ 296</b>	<b>\$ 277</b>	<b>\$ 262</b>	<b>\$ 237</b>

FAD Calculation	Fiscal Year							2014
	2007	2008	2009	2010	2011	2012	2013	LTM
Net income	\$ 75	\$ 73	\$ 81	\$ 40	\$ 40	\$ 43	\$ 71	\$ 73
Depreciation, depletion and amortization	27	30	35	31	29	26	27	25
Basis of real estate sold	4	9	11	49	14	5	3	9
Non-cash asset impairment & eliminations	-	-	-	-	(2)	-	-	-
Capital expenditures	(20)	(20)	(16)	(15)	(17)	(21)	(24)	(26)
<b>Funds available for distribution</b>	<b>\$ 86</b>	<b>\$ 92</b>	<b>\$ 111</b>	<b>\$ 105</b>	<b>\$ 64</b>	<b>\$ 53</b>	<b>\$ 77</b>	<b>\$ 81</b>
Distributions to common stockholders <sup>(1)(2)</sup>	\$ 77	\$ 81	\$ 81	\$ 82	\$ 74	\$ 50	\$ 52	\$ 55

(1) Excludes the cash portion of the earnings and profit distribution paid in 2006 in conjunction with the REIT conversion.

(2) Excludes distribution of Clearwater Paper stock in 2008.

# Definitions of Non-GAAP Measures

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

**Segment EBITDA from continuing operations**, as we define it, is segment operating income (loss) adjusted for depreciation, depletion, amortization and the basis of real estate sold.

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