

Information Timberland Owners Need to Make Management Decisions

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Scientific Forest Management

Question....

- I'll give you \$40,000 for the timber in that stand down the road. Wouldn't ordinarily give that much, but inventory is down because it has been so wet. What do you think?

- Well, what do you think?



You should know...

- the **value and quantity** of pulpwood, chip-n-saw, and sawtimber you have in that stand
- how harvesting the stand in question would fit into, or cause problems, for your **management plan** and **future cash flows**
- if you should **cut this now or wait** a few more years
- to consider **obtaining multiple offers** from someone who wants the timber badly

Don't guess...

- I hope you're **NOT** thinking:
 - “Wow, \$40,000 is more money than I ever thought I would get for some trees – this guy must be desperate.”
 - “if only I knew how many acres the stand is or how old the trees are”

Don't guess! Make the **BEST** decision possible with all of the information at your fingertips.

Treat Timber as an Asset

- What do you have? Inventory
- How does what you have change each year?
- What are your options for management?
- What could your property produce in terms of annual cash flow per year sustainably?
- Larger timberland management organizations (TIMOs and REITs) keep up with what they have and where it is over time to make the best decisions – You should too!

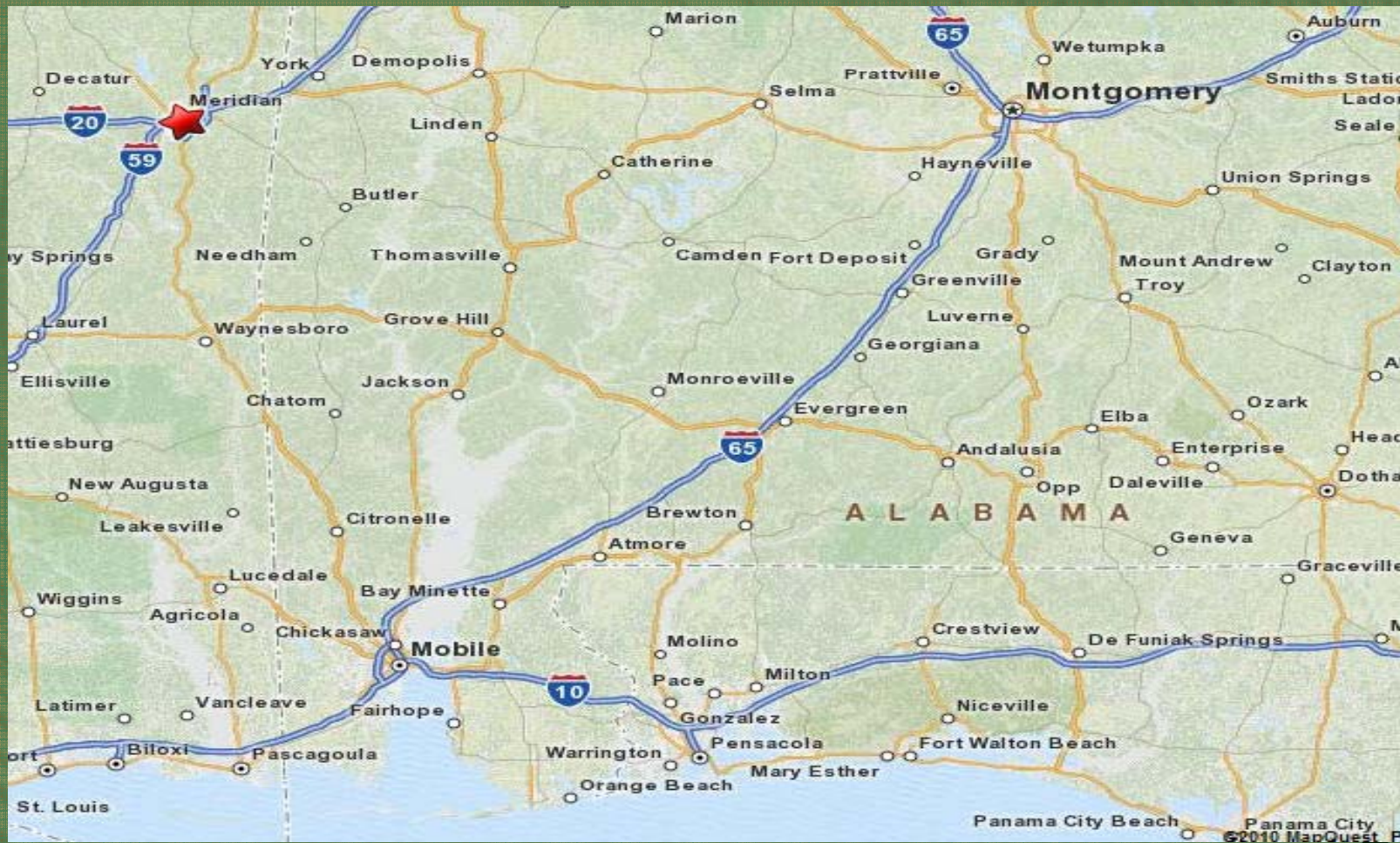
Having No Inventory is Like Having a Map with no Idea of Where you Are On It



Inventory

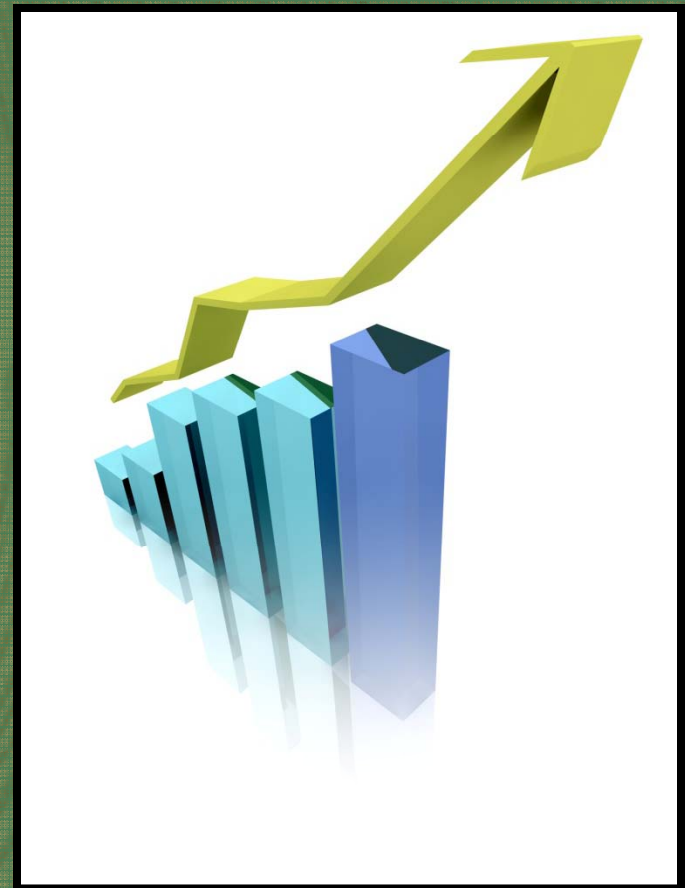
- We cannot make informed decisions without knowing what we have and where it is
- Most timber inventories are conducted to provide *current* stand products and values
- Inventories are not cheap! Utilize that cost now and for the future of the stand
- Typically no thought given to collecting information allowing for change calculations

Update is Like Finding Yourself on the Map – You're in Meridian!



Updating an Inventory

- Models are available to “grow” timber stands from a previous inventory to the current time
- The best models take into account genetics, weed control, fertilization, tree quality, merchantable height limits due to forks, etc.
- An update every year gives you an accurate estimate of current product tons and value, just as you expect from stocks or mutual funds



Other Information Needed

- Another question, however, is what will the stand be worth in the future?
- Lately, I have heard landowners say that they clearcut 16-17 yr old plantations since they were given a good price (say \$20/ton)
- They want to know, “Was that a good investment decision?”
- **KNOW** that you are making a good decision!!

Management Options

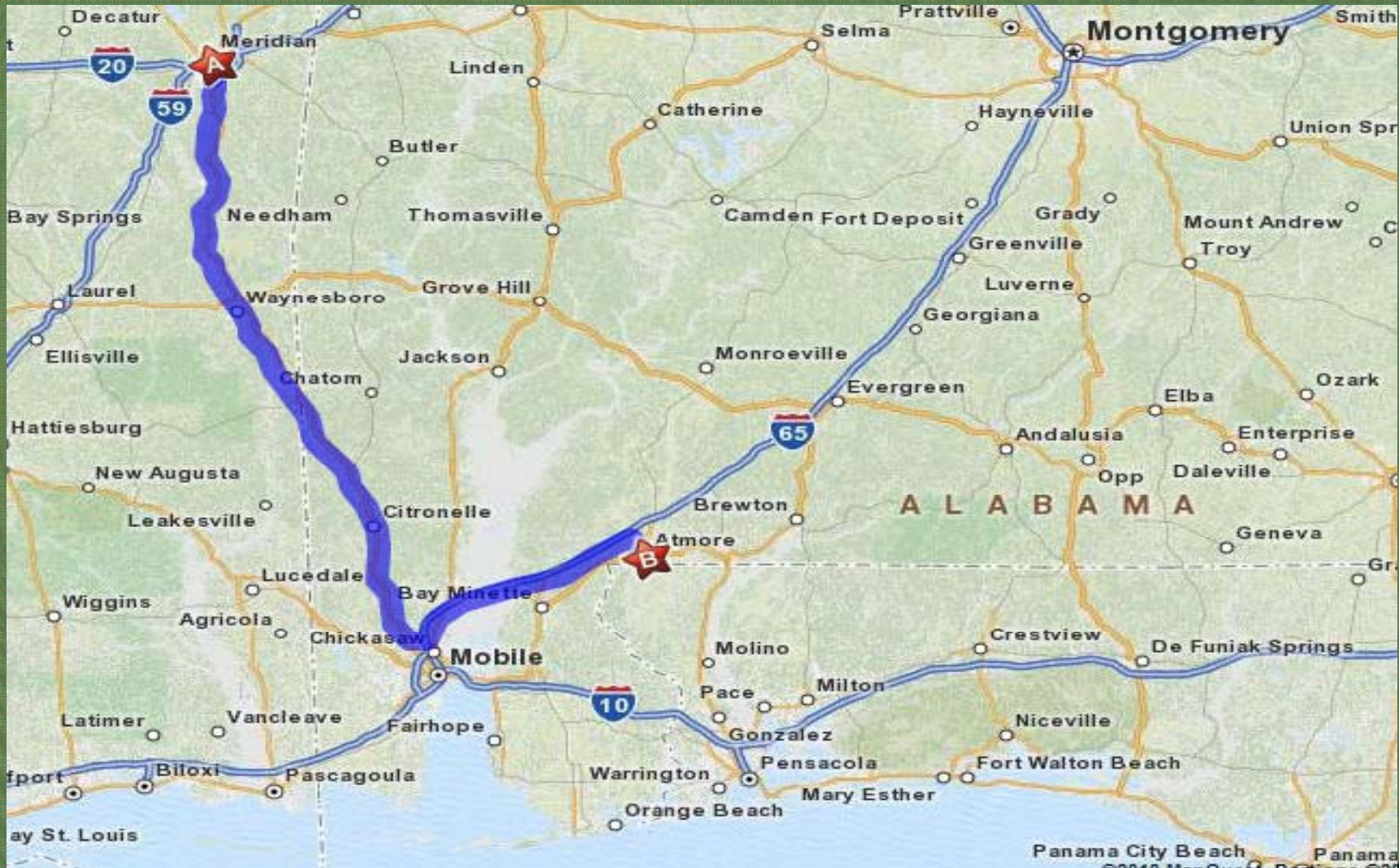
- It depends on what the stand would have grown into, what price the timber would have brought at that time, and how long that would have taken
- Obviously, looking into the future for stumpage prices is also problematic
- But we can grow out 16-17 yr old stands, with multiple thins to estimate what will be there each year for the next 20+ years

Management Options

- We can evaluate potential thins at any age, fertilizations, woody release, etc.
- If you have an estimate of how much pulpwood, sawtimber, etc. will be produced in each of your stands, and when, you have the ability to plan
- Larger Timberland Management Organizations have been doing this since the 1970's
- 5 P's Acronym

(Proper Planning Prevents Poor Performance)

Planning



Management Options

- If we thin now, at a good price, and receive historically good prices later for solid wood that developed as a result of the thin it may be better to thin rather than clearcut
- I ran one stand lately that looked like the landowner made the right decision to clearcut
- I ran a different one for another landowner and advised him to thin given the promise for the future

Management Options

- The point is that this is the objective way to make the decision
- Run the numbers given the best available data and models and make an informed decision
- The decision is still yours and if the numbers are close you may decide to go with a sure thing (current offer), but at least you make an informed decision
- Another question is “Are you willing to take some of the proceeds and regenerate?”

Management Options

- After a clearcut comes decision time on many treatments.



Decisions?



Management Options

- A good model can evaluate different combinations of these treatments along with their expected costs and returns for future stands to help with decision making
- Sometimes, in some markets, it pays to spend money up front.
- Sometimes, and on some sites, it pays to spend less money up front

Intensive Management – Age 6



How
much can
you
spend to
grow
trees this
fast?

Intensive Management

- Let's say you spend about \$300/ac for regeneration
- If you get \$8/ton you will need to grow 7.6 tons/ac/yr (about 3 cords) for 18 years to make 6%
- At \$20/ton you can grow 7.2 tons/ac/yr for 15 years and make more than 13% return on investment
- So, much depends on markets.

Age 24 After 3rd Thin



Intensive Management with Thins

- With 3 thins and more historic stumpage prices the return for a 31 year rotation would be 10.5% and the final harvest would be worth about \$3000/ac
- How much can a forest of 1000 acres produce in revenue each year?
- Wouldn't this be good information for a landowner to have to make decisions
- Will you run out of wood?

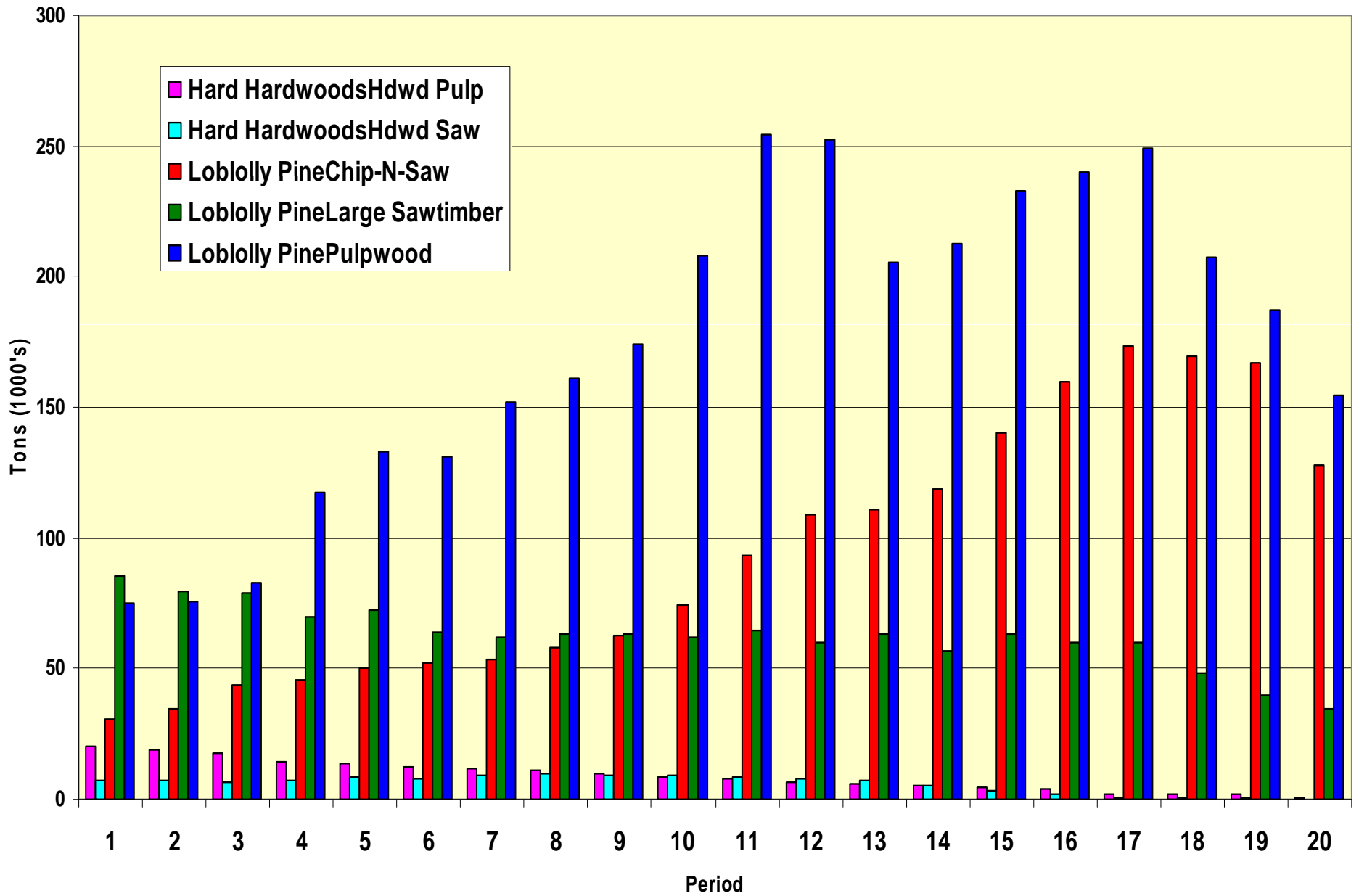
Harvest Scheduling

- Say you want to receive some minimum level of cash flow each year from your timber stands (500 acres, 1000 acres, 5,000 acres, etc.)
- Use the models that project alternative yields depending on management options (thins, fertilizations, etc.)
- Then use software to maximize financial returns subject to meeting the cash flow level

Harvest Scheduling

- Most landowners are amazed at how much cash they can generate each year without transforming their forest to all pre-merchantable stands
- Of course the cash flow amount depends on markets and on the forest structure currently
- This chart shows one schedule for harvests for a property

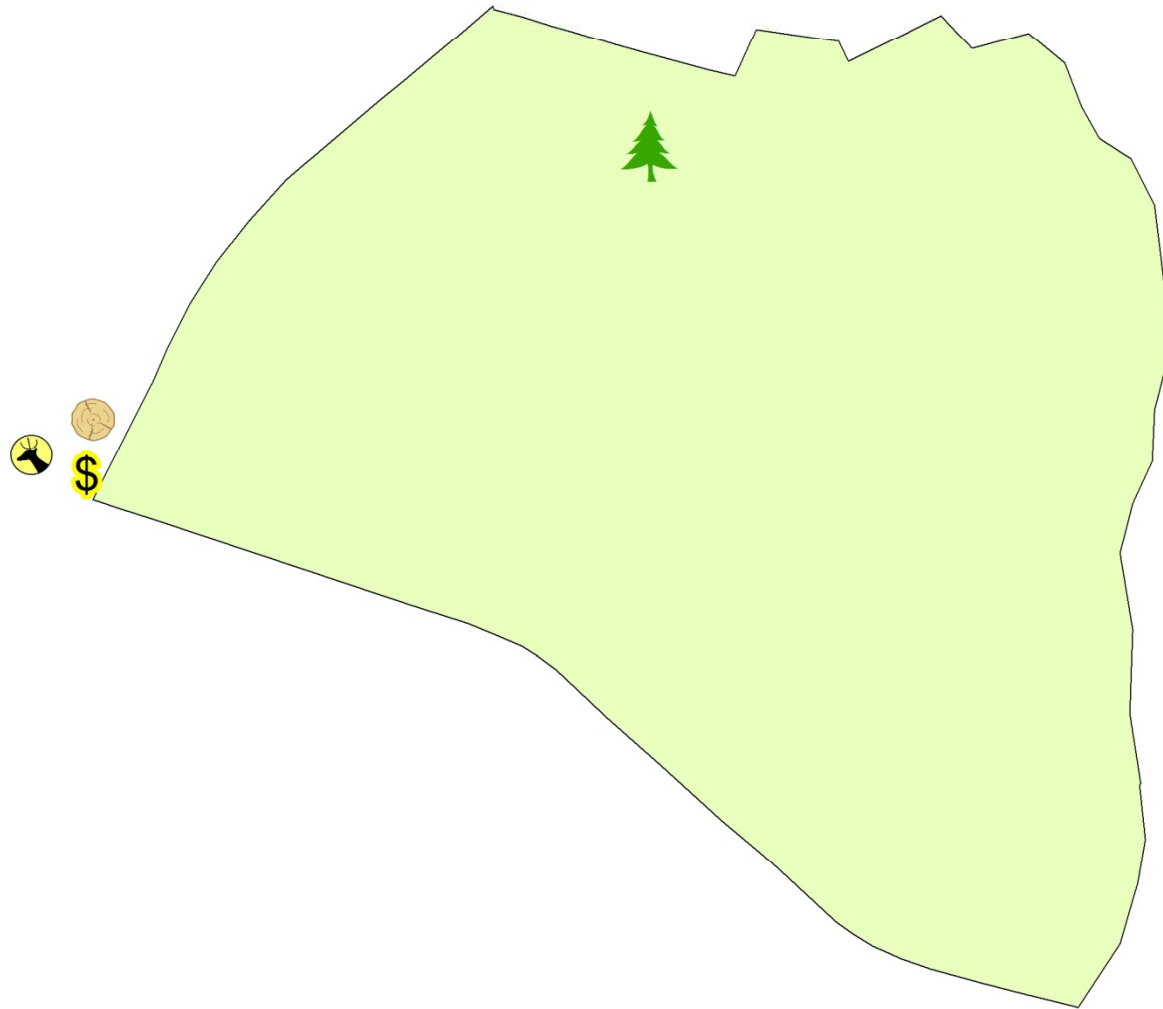
Standing Inventory by Period and Product (All Stand Types)



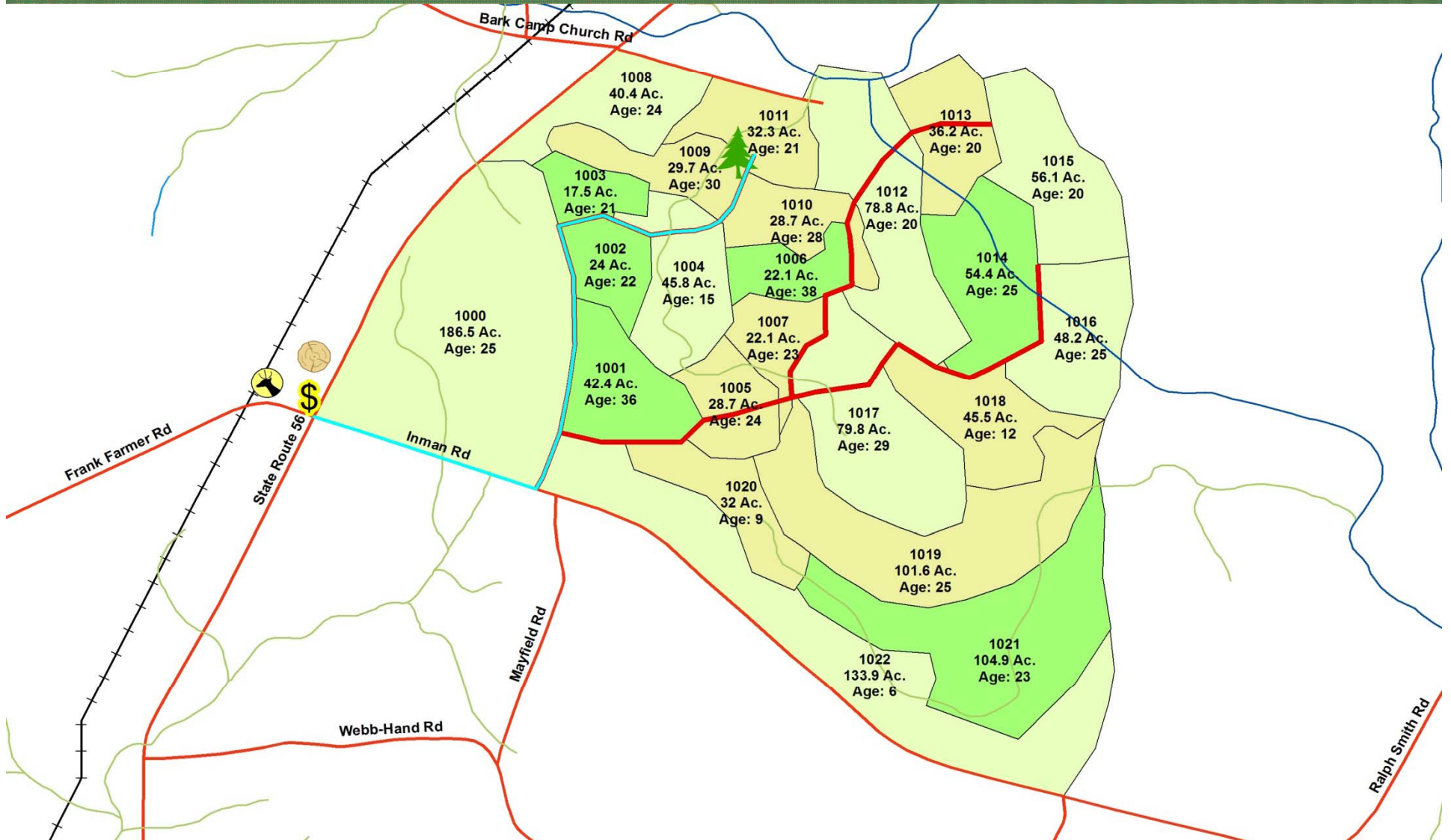
Where is your value spatially?

- With the advent of reasonable cost GIS and mapping systems there is no reason not to have your updated stand values and future planned activities tied to a mapping system
- It is important to keep up with changes as they are made – harvests, plantings, fertilizations, thins.
- If stands are thinned, they should be re-inventoried.

Not This



But This



This Talk has been for Aggressive Owners, Not Those Who

- Hold and view their timberlands as a savings account to be accessed in an emergency
- Think of their timberlands as a “once in a lifetime timber harvesting opportunity”
- Are not willing to think of their timberlands as an investment like stocks or mutual funds and take action(s) accordingly

Questions?

Thanks for your time!

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