

ORAL HISTORY INTERVIEW

OF

PHILLIP WOODS

BIRMINGHAM, ALABAMA

JUNE 27, 2012

BY

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PREFACE: The following excerpt is from the corporate website, <http://www.resourcemgt.com/About-Us/History> accessed on 9 July 2012:

"In 1950, John M. Bradley partnered with Harry E. Murphy, to create Resource Management Service, Inc. (RMS) as a southern US timberland management and consulting firm. In 1985, RMS partnered with John Hancock and another timberland manager to form the Hancock Timber Resource Group (HTRG). The strategic alliance succeeded in building a southern portfolio valued in excess of \$1.5 billion. In December 2003, Hancock determined to forward-integrate into asset management, ending the business relationship with RMS. On January 1, 2004, RMS formally re-launched as an independent timberland investment manager,offering comprehensive timberland investment services directly to pension funds, endowments, foundations and family offices. As of December 31, 2009, the firm has gained capital commitments of approximately \$2.5 billion and established assets under management of \$4.2 billion."

This is the transcript of an interview of Phillip Woods, Executive Vice President, North & South America Operations, Resource Management Services, 1125 Kingswood Road, Birmingham, Alabama

CARTER: Phil, approximately how much Southern Timberland are you responsible for?

WOODS: We manage about the 2.5 million acres of southern timberland. In addition we have some lands in Brazil and China.

CARTER: That 2.5 million is just in the South or is that for the whole USA?

WOODS: Just in the South from North Carolina to Texas

CARTER: How many foresters do you employ?

WOODS: We have about 70 professional foresters on staff and that includes not only forest management operations, resource planning and research, but we have a forester as president of the company, we have an investment management group that contains several foresters, portfolio manager types, we also have a land sales group that includes four foresters.

CARTER: RMS has a long history as a general consultancy. Do you still do private landowner work?

WOODS: No. Beginning in 2006 with the purchase of the International Paper lands we basically moved to a TIMO¹ entirely.

CARTER: I recently reviewed the SAF membership list in the South and was amazed by what appears to be a large increase in the number of consultants. Is this a true observation and, if so, to what factors do you attribute this increase in the number of consulting foresters?

WOODS: I think that's probably true. In our forest management, we are truly vertically integrated

with foresters on the ground looking after our client's assets. At the same time we do not employ as many folks in that capacity as say International Paper did when they owned the same lands. Part of the reason is we don't try to do everything. We look at where we need foresters on the ground to make the decisions that are the most profitable for clients and where are areas that we can contract out with other consultants, for example timber cruising. Consultants may do that every day. We wouldn't be doing that every day, so we believe they're better at that than we are. Although we do some timber cruising, for the most part our timber cruising is contracted out to the local contractors. Other things that we contract out would be GPS work. We GPS every track that we harvest and we contract most of that out. All prescribed burning is contracted out. We contract out a lot of our security work with third-party experts. We are involved a lot in research plots on our client's properties but we primarily contract out the establishment and the measurements of these research plots. And we contract the same things that most TIMOs contract - site prep, reforestation, boundary line work, etc. - all that is done by outside contractors.

CARTER: How would you describe your timberland management objectives?

WOODS: Our clients hold timberland primarily as an investment so if you look at that primary objective and attempt to translate it into our timberland management; we're looking to maximize the net present value of our timberlands. A lot of things fall under that objective. Often we get the question of how environmental values come into play. We believe that to maximize net present value we have to be good stewards of the land; we have to be good conservationists because this is a sustainable business. We're not looking for a short-term investment. Therefore when we say maximize net present value were looking at not only current returns but also preserving the long-term value of the property itself.

CARTER: So management objectives haven't changed a great deal from those of International Paper?

WOODS: In a sense it hasn't changed but in a sense it has and those are some of the discussions that we had with a lot of the foresters we hired from International Paper. The goal in International Paper days was primarily to provide sufficient wood flow into their mills. That was the focus. We take a different tack now. Our primary goal is to maximize net present value so we may do things differently from a management standpoint than they did in the past. We may look differently at the number trees per acre that we plant, genetic attributes, residual basal area after thinning, etc. We are not trying to focus on pulpwood. Although we grow a lot of pulpwood, we are not overlooking

other products, a diversity of products. That is one example.

CARTER: What are the major sources of revenue from the timberlands you manage?

WOODS: Timber sales are the primary source of income. We also have a land sales team that handles small track land sales. Unlike the timber companies in the past we don't have a problem selling if we are offered a higher and better value for piece of timberland, and it becomes part of the design and ongoing stream of revenue. Recreational licenses particularly hunting licenses are a large source. One source that we don't really count on, we don't budget that much on, but we seem to generate several million dollars a year from are easements, primarily oil and gas easements and damages. That's kind of a unique piece. If you were to place our revenues in order from highest to least it would be timber sales, land sales, recreational licenses.

CARTER: When you hold a timber sale, do you sell stumpage or do you merchandise timber?

WOODS: We sell both ways. We have a wood supply agreement with International Paper for paper mills that were within the footprint of the lands that we bought and we also have wood supply agreements with several different sawmills that were at one time owned by International Paper before they sold. Therefore we are forced to deliver wood. Before 2006, we were not in the wood delivery business. After the IP acquisition everything changed. Today we're quite different and we had to make a lot of changes in our organization but we deliver about 70% of all the wood from our forest.

CARTER: Do you treat the land as a pooled investment or do some of your major investors want their lands managed differently from other owners?

WOODS: We have both pooled investments and separate accounts. Most of them are co-mingled funds but I would say that the management practices on both the pooled and separate accounts are very similar. Again going back to maximizing net present value causes us to operate pretty much the same way across all clients. You wouldn't notice much difference.

CARTER: In your typical pine silviculture do you still favor plantations or do you use natural regeneration?

WOODS: We favor pine plantations. In fact our acquisitions focus on purchasing pine plantations therefore all of that is artificial regeneration for the most part. About 20% of all of our properties are streamside management zones and all harvesting is by selection and reforestation is by natural regeneration within those zones.

CARTER: During the second half of the 20th century, the pulp and paper industry invested heavily

in research and developed intensive management practices such as tree improvement programs, site preparation, weed control, fertilization. How much of this technology do you find to be practical under your current management objectives?

WOODS: All of that is extremely valuable to us. It has provided the foundation for modern forest management especially investment forest management. One huge part of our focus today is genetics. We plant a lot of MCP² and varietal seedlings in addition to the open-pollinated seedlings. Our typical pine management includes hardwood control first off the bat. Herbaceous weed control takes place on almost every acre that we plant. We were one of the first consultants to become a member of the N. C. State (University) forest nutrition co-op long ago. We've learned a lot about forest fertilization over the years and we've taken what we learned and applied it in our timberlands management. We spend a lot of money every year fertilizing stands that need fertilizing. There is new diagnostic technology available now that we take advantage of. We contract to have imagery taken of our property every year and we can see trends in every stand on the ground. We can determine the leaf area index trend over time and in that way we know where fertilization is most needed, will be most beneficial. And things are always changing.

Fertilization was a huge change in our business when we first began. RMS began an operational fertilization program in 1995. Of course fertilizer is very expensive especially now, so we have to be careful how we spend those dollars. Again it goes back to net present value and so we are always looking for ways to refine and reduce our expenditures on genetics, fertilization, and hardwood/weed control. Through research, we are always looking to refine our expenses tighter and tighter and use as little of those products as we have to, making sure that if the return is there we incorporate them in our management.

CARTER: What do you see as the major opportunities and what are your major concerns about the future of your business?

WOODS: As far as opportunities, there are probably a lot of things that are just around the corner that we don't see yet that will probably have a big impact on us. Our research guys are always attending meetings where they're learning something new and bringing it back and employing it. I guess if you asked me which one opportunity is our biggest today I would say it's still in the area of genetics. We're still seeing gains; not only more wood is being grown from a tree but also a better quality tree is being grown. We've seen a lot of changes just within the past five years around MCPs and varietal. I think we'll see that side of the market continue to grow and provide extra

value to our clients.

As to what some of the challenges or constraints may be, I guess I would say a couple of them would be the legislative and regulatory changes that seem to be constantly coming down the pike and we have to struggle with to make sure that we can still operate. We need to comply with certification systems. All of the properties that we manage are certified to some standard. In the USA its SFI³ standard, in Brazil it's the FSC⁴. FSC is making great strides here in the USA and I think that, over time, the trend will be for all certification groups to tighten the standards required to be certified. There's going to be more constraints incorporated in the certification that we have to abide by and that will affect what we do and everything has a cost. Those are just a couple things that I see as future constraints.

CARTER: Very good I think that wraps up the questions I had. Do you have any other comments you would like to pass on to me and my co-authors as we develop our book?

WOODS: I don't really, except in reading the prologue⁵, I got the impression that you believe a lot of the co-op research that was done when it was industry run may have gone by the wayside. I think the term used is "more modest". I think in dollars spent that's probably true. I have noticed though that all the TIMO's are involved in the co-ops. We're involved in five or six co-ops ourselves and spend a lot of time and client's money on that. I think the big flow of money from the big companies like IP into forest research is over. While there is still money being spent, the co-ops had to look at the reality and spend the money more wisely. I think you see more combined efforts between co-ops than we used to see. In the old days I didn't see them sharing information, working together on different projects, cooperating with one another as much. I think in some ways we are seeing a more efficient research system than we saw in the past. I wouldn't want to leave you with the thought that industry research is going by the wayside or is less productive even though there is less money being spent. I'm not sure that the most important forest research has been hurt tremendously.

CARTER: Thank you very much, Phil!

¹ TIMO - Timber Management Investment Organization.

² Mass Controlled Pollination (or Controlled Mass Pollination - CMP).

³ Sustainable Forest Initiative

⁴ Forest Stewardship Council.

⁵ For a proposed book on Southern Forestry.