

Rayonier Advanced Materials (RYAM) – The Miss That Should Surprise No One

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Rayonier Advanced Materials (RYAM) is a fantastic business. I first wrote it up [here](#) just prior to its spinoff from RYN. But I also laid out the case that 2014 was going to turn into a disappointment for RYAM. To quote myself:

I think RYAM will miss on production volumes in 2014 and end the year at 500k tons of specialty and 125k tons of commodity cellulose.

I believe that investors expecting 2014 to be on par with management's guidance are going to be disappointed.

Turns out I wasn't far off. On this morning's call, Management confirmed that full year volumes should come in near my estimates (625k tons total; 25% of that would be commodity, 75% specialty) and EBITDA should be closer to \$265MM (from their initial guidance just north of \$300MM).

This was a miss. But it was a miss that should've surprised no one.

But the market is full of crazy people and it's fully of lazy people, and the stock sold off rather dramatically after the news hit (down over 10% today).

To those investors that are neither crazy nor lazy, this dislocation may turn into a fantastic buying opportunity. To quote myself once again:

But where others see disappointment, I see opportunity. To understand why, you have to look through the next 12 – 24 months. You see, RYAM has already executed their large capital program. They already spent \$385MM to transition their remaining commodity cellulose capacity to specialty; those costs are sunk. And when the market soaks up the existing excess capacity, RYAM shareholders will be the biggest beneficiaries of future specialty cellulose inflation. RYAM's position reminds me of a quote from Warren Buffett:

In an inflationary world, a toll bridge would be a great thing to own because you've laid out the capital costs. You built it in old dollars, and you don't have to keep replacing it.

If RYAM gets into the mid-20s, you will have the rare opportunity of owning a truly great business at 5x core future EBITDA earnings power.

Even the crazy and lazy should find that compelling.