Christy: …4:30 pm Tuesday session at Citi's Global Property CEO Conference. I am Christy McElroy with Citi Research and we're pleased to have with us Chris Benjamin, President and CEO of Alexander & Baldwin.

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Chris, I'm going to turn it over to you to introduce your company and your team, provide the audience three reasons why investors should buy your stock today, and then I'll kick off the Q&A.

Chris: All right. Thanks, Christy. And once again, thanks for having us here. I was just telling Christy, I'm incredibly impressed by all the adjustments that have been made and we're glad to be here. And I know it's been an interesting week. But you're doing a great job of keeping the conference moving forward so and we're always happy to be part of it.

So let me introduce myself. Chris Benjamin, CEO of Alexander & Baldwin. I'm joined by Brett Brown, our CFO. Brett is relatively new to the company, joined us a little less than a year ago with a strong background in the REIT industry as a CFO and it's been a great addition to our team.

So a little bit about Alexander & Baldwin. AB is a geographically concentrated commercial real estate company with 100% of our CRE assets in Hawaii. It's a market that we've operated in now for 150 years. We've leveraged our long history there and our strong local market knowledge and relationships to build a strategic and attractive portfolio on the four major Hawaiian Islands.

We've been transitioning our business model in recent years, selling off our mainland assets, reinvesting the proceeds in Hawaii, exiting agricultural and development for sale businesses, converting to a REIT, and importantly successfully developing the capabilities and systems of an internally managed commercial real estate business. As we've built up more scale in Hawaii with our asset base, we've built up the internal capabilities to manage all of that. It's gone quite well.

So as for the three reasons to own us, the first one is our strong track record of creating value through the acquisition and management of Hawaii commercial real estate assets. We grew total NOI by more than 20% last year and same-store growth was about 5.2%. So our core commercial real estate business is performing extremely well.

Reason number two is that after many years of successful transformation, we're getting closer and closer to our goal of being a focused Hawaii commercial real estate company. Seventy-five percent of our asset base is now Hawaii commercial real estate and we're actively pursuing transactions that could take us to over 90% in the relatively near term. This focus and simplification should allow us to unlock a lot of value as we have a simpler, cleaner story.

And then finally, the third reason, while I realize we're not unique in this regard, given the recent market turmoil, we're currently trading at about two-thirds of consensus NAV per share, and so we think it's, for obvious reasons, a very attractive entry point. So those are my three reasons.

Christy: Great. So we're kicking off all of the sessions with the same question. ESG is of increasing importance for all company stakeholders and you have made a lot of progress on your ESG and this initiatives as you talked about on your call. What is one thing your company's doing to improve your overall ESG score over the next 12 months?

Chris: Yeah, so before I get to the one thing, let me just give a little context. I'm very proud to say that ESG, although not necessarily under that terminology, has always been important to us and I'm glad there's growing clarity in terms of how to set ESG goals and monitor progress in ESG.

A couple of years ago we created a VP of Sustainability and Governance position and we began monitoring the evolving practices in ESG for a year or so because we wanted to make sure we were thoughtful about how to track ESG. Last year we decided to embrace this as the materiality map and the SASB framework and use it to select the ESG issues that we felt were most important to our business model. We think SASB is an effective tool for prioritizing ESG actions and measurements and we actually used it to help shape our ESG strategic plan.

So I was pleased when Larry Fink's letter also embraced the SASB framework. We're working not only internally to set and track specific metrics based on the framework, but my Sustainability VP and I are playing a leading role in the local community with other Hawaii companies as we try to work together to incorporate the SASB framework into our businesses and also find collective goals that we can work on as a business community because certainly from an environmental and climate change perspective, and other areas too, there are a lot of things that we can do.

But you asked for one thing. So there are a lot of things to choose from, but the one thing I'll highlight is that this is our 150th anniversary year and we're doing something in the social arena that I'm very proud of. We're working to help get our employees even more engaged in the community than they have historically been and they have historically been very community-oriented. We've had employee matching gifts for decades, but we've also given our employees a day off specifically for community service and also giving each of them the ability to direct a $150 contribution to a charity of their choice. And while it's not a big amount of money, it's been amazing to me how excited they are about it and seriously they're taking it. And these two programs are just helping them get more engaged in the community and it's a positive part of the S in ESG.

Christy: Great. Well, I wasn't going to start off talking about Grace, but since we already got two questions on it on Veracast, I figured I might as well change my strategy here. So I know that you were able to get to EBITDA positive on the materials and construction business in fourth quarter. Maybe you can talk a little bit about that, but you've also run a sale process for Grace as well.

And so, the question on here is, if you're not the right long-term owner, and the person specifies both Grace and – I'm going to mess this up – Kukui'ula, then why not sell for market price? What do you think will happen to the stock price if you're not able to increase your internal target sale price? And are you missing out on other capital allocation opportunities by waiting?

Chris: Yeah, so for anyone who's not familiar, Grace is materials and construction business that we own that obviously is not a long-term fit with a REIT business model and so we are looking to monetize the business. We took it to market in the fourth quarter, late third quarter or early fourth quarter last year, but we did so at exactly at the time that the performance of the business was sort of at its low point in recent memory and maybe historically.

And as a result, while we do have some interested buyers and we are continuing with the process and evaluating some of these offers, we didn't get the depth of interest that we might otherwise have gotten. We feel that, again, I'm not ruling out that it's possible that we could transact with one of the parties that we're currently talking to, but it's also possible that by getting a couple of quarters of positive quarters of EBITDA under our belt we may open up more opportunity and bring more potential bidders into the process. So we're going to be evaluating that.

I'm completely unambiguous about my desire to monetize the business, move beyond it, redeploy the capital. But at the same time, it's going to be a judgment call as to whether I believe we can get significantly more value by waiting for a modest period of time versus transacting now. And that's really going to be determined once we get a little further through the process. So certainly did not make a decision not to proceed at this point, but we're going to be thoughtful about whether this is the right time to transact or whether having a couple more quarters of improving performance would be helpful to that process.

Christy: And so what drove that shift to being EBITDA positive in that business and are you confident in that trajectory on the forward basis in 2020?

Chris: Yeah, there really are two things that drove the improvement in the fourth quarter and there's a third thing that I hope we can add to it as we move into 2020. The two things that primarily grow that were, one, some cost reduction efforts and some right-sizing of our organization and our cost structure consistent with the decline in business over the last year or so. So we've had a drop in revenue and it took us a while to catch up in terms of right-sizing our cost structure. But we've accomplished that and I think we're better positioned from a cost standpoint.

The second thing that happened is that in the second and third quarters of last year, we took some pain associated with some jobs that were in our backlog that we were actually delivering on that quite frankly had been bid two, three years ago in a very, very competitive environment and I think we hadn't fully appreciated the full costs and frankly the full losses associated with those jobs. So we had some catch up from an accounting standpoint in the second and third quarter and I believe that we've put that pain behind us as well.

The third thing that didn't necessarily materialize in the fourth quarter, but I'm hopeful that in 2020 it will, is increasing revenues and increasing business volume. We have seen a decline in the general level of paving work in Hawaii, both at the county level and the state level and that significantly impacted our volumes last year. But we believe, both based on what we're hearing about the state and county budgets this year, and the fact that early in 2020 we've already won a couple of or at least been identified as the low bidder on a couple of important contracts, I'm hopeful that the combination of lower cost structure, having put some of those previous jobs behind us, and now having an increase in paving volumes, we'll be able to see an upward trend. And I'm cautious in that forecast because it's been tough to predict outcomes in the business, but I'm cautiously optimistic that we will see improving performance this year.

Christy: Great. So just shifting to same-store NOI, your growth expectations are from a pace of 5.2% in 2019 to up 2 to 3% in 2020. Can you walk us through that sort of what drove the pace in 2019, but what's also causing the deceleration into 2020?

Chris: So first of all I'd say there were a number of things that drove the positive performance in 2019, but probably the single biggest factor that leads to a little bit slower pace of growth in 2020 is the fact that a lot of last year's growth was occupancy related. We had a nice pickup in occupancy. And so, as a result of that, while we're still at a high level and 2 to 3% in this environment, I think is nothing to be ashamed of, it is obviously a headline reduction in the growth rate, but it's growth off of a very nice starting point.

So I think that if you break down our NOI same-store projection, it's a little bit higher in industrial than it is in retail. We'd be a little bit below the 2 to 3% range in retail, a little bit above that range on industrial and that's driven by some favorable leasing activity in industrial. And we have a little bit – we don't have a lot of big-box exposure or even mid-box exposure in our portfolio because we're mostly grocery anchored retail, and then our industrial portfolio. But we do have one Pier 1 store that has gone dark and so we've factored in…

Christy: That's the Pearl Highlands one.

Chris: That's at Pearl Highland. But other than that, we feel good about the portfolio. Again, we don't have department store or big-box exposure really other than a couple of very high performing, like a Sam's Club that's extremely well-performing and a few others that have not shown any signs of stress

Christy: At Pearl Highlands you also have a Guitar Center that just opened, I believe, and that's another retailer that's not immediately apparent what will happen, but they just got downgraded and they've got some leverage issues. I know that you just redid the food court and you've got other solid performing stores. So how can these things impact the center, losing the Pier 1? Again, I don't know what's going to happen with Guitar Center, but are there cotenancy provisions at the center that we should be aware of and how do you think about the positioning of the center longer term?

Chris: Well, I think that the chances are that we will demise the Pier 1 space and probably break it up into a couple of spaces and go for smaller tenants. We've had good success in doing that. Of course, Lau Hala Shops would be the best example where we took the old Macy's box and demised it and have done extremely well there. So I would expect that we would go for smaller tenants.

But I think we're in a relatively good position given the recent refresh of the center and the fact that we were essentially 100% occupied before the Pier 1 vacancy. So I think we're being very conservative in our underwriting for the year. We're certainly not assuming any economic occupancy in our forecast for the year, but I think that we should be able to re-tenant it if we demise the space.

Christy: And in terms of the shop side, and you mentioned your portfolio is mostly grocery anchored centers, so are you seeing any fallout on the smaller shop side?

Chris: We have not.

Christy: Okay. Any questions from the audience? So just in thinking about Hawaii specifically, I mean there's a lot of concern or talk at the conference about just coronavirus fears and just general implications. For retail it's just brick and mortar shopping center concerns versus shopping online and retailer supply chain concerns. You are also exposed to a market which has – I mean you're in a market which has a high percentage of Asian tourism. So wonder if you could sort of put that into context into your macro views on retail and what the implications could be, but also related to the market that you're in.

Chris: So as a general rule, those are all valid points and I think we're going to have to wait and see what the impact of the virus is and the impact of some of these behavior changes that you're signaling. And it's really hard for me to assess what that impact could be, but we're going to be watching all of those things.

The important point to make, though, about our portfolio, as you know, is that it's not tourist-oriented for the most part. It's certainly not – it's not Waikiki retail, which is where the Japanese impact would be the greatest. And so, we're not – as grocery anchored shopping centers, with the exception of a couple of our centers that are in resort areas, although they have a very high percentage of local customers in them, we shouldn't feel the direct impact. I can't comment on supply chain of our retailers and all that. It's just a little premature to comment on that. But I don't think that we'll face a lot of the direct, immediate impact of a hit to tourism, especially from Asia.

Having said that, the Hawaii economy is very much tourism driven. And so, if it is a prolonged and sustained impact, I think just like virtually everywhere, we will feel some effects. But it's really way too early to conclude what is going to happen as this unfolds.

Christy: We've heard some reports that re-tax could potentially come back. It seemed like we were done with that last year, but I've heard just recently that there's a risk of that coming back. What are you hearing on that front?

Chris: Well, it's virtually impossible to predict what will happen in the legislative session in Hawaii. It is true that there are bills that are being considered by the legislature right now that would repeal the dividends paid deduction for REIT income earned in Hawaii.

I can't predict the outcome. I will say that there has been a very strong effort in opposition to that legislation from not only the REIT industry, but also the construction industry locally in Hawaii has come out very strongly against the legislation.

For those who are not aware, the legislation passed last year. It was vetoed by the governor. But the prospects for it passing this year are just at this point hard to predict

Christy: Questions? You've been focused on policing the Maui land sale proceeds through 10/31. Where are you in that process?

Chris: So they've all been placed. We made the last investment in the second quarter of 2019. Just as background, this was $262 million of proceeds from agricultural lands that we sold on Maui in December, 2018. We had to identify the replacement investments essentially by February 1st last year and we did. And then we closed on the last transaction, I believe it was in May.

We did exceedingly well, in my view, on that. We had a very short window to place a lot of capital and our deal flow and our investments team did. Our deal flow was solid, our investment team did a great job of identifying primarily off-market transactions, and they were all in our preferred asset classes. We have three preferred asset classes of grocery anchored retail, industrial, and ground leases. And we bought two assets in each of those asset classes at a cap rate about 100 basis – a blended cap rate, about 100 basis points north of what we had originally signaled and underwritten. So we did very well.

The land that we sold was costing us about $8 million a year just to hold the land. It was generating no income. And so, we replaced that $8 million expense with about $14.5 million of NOI from the reinvestment of the proceeds. So we were extremely pleased with that.

Christy: And going forward, what should we expect in terms of an ongoing pace of acquisitions and dispositions and maybe provide an update on the transaction markets in Hawaii.

Chris: So, Brett, do you want to jump in here?

Brett: Absolutely.

Chris: I'm hogging the microphone.

Brett: It's all good. We've really refocused. As Chris mentioned, we reinvested all those proceeds and so we've kind of shifted the investments team to more of dispositions. And so, we've made great strides in 2019. We've had over $90 million of assets sales in our land sales and we were able to pay down debt, about $73.5 million, and really improve the balance sheet there. So we continue on that front. We want to improve the balance sheet metrics there, get our debt-to-EBITDA in a better range or the five to six times, as we've long indicated. And we'll continue to work on that progress to improve the balance sheet and simplify the company and get our stock into a healthier range.

Chris: One thing I'll add is that the asset sales that Brett referenced were not commercial real estate asset sales. They were land sales, development sales, and non-core land sales, non-income producing land sales. And that is our focus right now. One of the things we signaled when we were completing the reinvestments last spring was that we were going to shift then to primarily disposition mode, trying to strengthen our balance sheet. But the team remains very much engaged in looking at assets, talking to potential sellers.

And so, I think that when we're ready to resume an acquisitive mode, and that will be once we've strengthened the balance sheet a little bit and potentially once our stock is in a place where we feel that we can use OP units, I have no concerns about the depth of our investment pool because we've got, I think a lot of opportunities out there. It's just that our focus right now is a little bit more on de-levering.

Christy: So you're not ready to shift to a net acquisition strategy. You're still net dispositions, mostly non-income producing…

Chris: That's right.

Christy: …and further debt pay down. Where are you today in terms of debt-to-EBITDA, excluding the gains that you achieved last year, and how much further do you have to go?

Brett: So we're about a 7.4 times at the end of 2019.

Christy: Excluding the gains?

Brett: Excluding gains.

Christy: Okay.

Brett: So we would look to improve that into the five to six times. And we're not targeting any particular number as is a very – it could be very, very volatile as far as the timing and the execution of those sales. And so, we would expect in the next couple of years that we'd be able to get in that range, both by reducing the numerator, as well as increasing the denominator, should improve our earnings, etcetera.

Christy: Are you doing any acquisitions then?

Chris: Not currently. No, we're not. I think that we have always been opportunistic. So while obviously when we did the land sale on Maui, we very proactively went out and looked for $250 million of acquisitions, and the team can ramp up very quickly if we want to do that. What we do when we're not in that mode of trying to place capital is we keep our ears and eyes open and we engage with sellers. And if we find a good opportunity, we certainly could pursue it. I think whether its balance sheet or even selling some of our non-strategic commercial real estate assets to help fund those sales or selling some Ag land. I think we could pursue if we, you know, let's say a good industrial asset came along for $50 million or some number and we felt that we wanted to pursue it, I think we could pursue it. But we're going to be a little bit more opportunistic in the near term while we're focusing more of our energy on dispositions.

Christy: Any questions from the audience in the room? We had a question on Veracast, which is a question that I planned on asking as well. And I gave Brett an ear full at the Taste of Miami event the other night. What would be the catalyst to start giving EBITDA or FFO guidance, understanding the land operations and materials business is unpredictable. But would you be willing to give guidance on the commercial real estate business NOI or EBITDA? And I would also add to that and say that a lot of REITs give core FFO, and so is that something that you're considering?

Brett: We always want to provide the best disclosure or always looking at ways to improve that. And so, we'll continue to evaluate that and figure out the best way. And I agree with wanting to report the industry metric clearly and provide guidance around that going forward. So we'll definitely be looking at that. We think that, as you suggest, a core FFO number around the commercial real estate is likely the best way to approach that and address that.

Christy: We have another question on here. Given the pullback in the stock price and understanding that you're in de-leveraging mode, but would you consider share buy backs here given the pullback?

Chris: Well, so much has changed in the last week. I think we're all trying to assess where the market is, where the market's going. I would say that I absolutely feel that the stock is significantly undervalued. I'm sure there's not a CEO here that doesn't feel that way. I think we're all taking stock of what's going on with coronavirus.

Having said that, I do want to stay focused on de-levering and strengthening our balance sheet for acquisitions of commercial real estate because that's our primary focus as a company going forward. But I think I have to acknowledge that the world has changed a lot in the last week and I think we're going to have to assess where it goes. Certainly don't want to signal that we would undertake any share repurchases right now, but I would say that we're all kind of taking stock of what's going on.

But overall, I think the most valuable thing that we can be doing is focusing on strengthening our balance sheet, both through the Grace and other land dispositions. And that'll probably be our overarching focus.

Christy: Regarding Ho'okele in Maui, the Safeway's open, but you don't have an occupancy or ABR number listed in the supplemental. Is that a shop space not open yet and maybe update us on the leasing.

Chris: We're making good progress on the leasing. I unfortunately don't have statistics or target dates of when we're going to be occupied. But I do know that with Phase 1 – now keep in mind there is a Phase II there, which is another mid-box space, which we did not build and we won't build until we have a tenant for it. And we were able to stage the development and generate a good solid return on the first phase. But I don't have the particulars of when we'll have occupancy, but I do know that we're making good progress on leasing of the center.

Christy: Well, I'm just curious. And so, in the context of just that neighborhood, that area, because you also own Pu'unene, which is I think 65% occupancy right now. And so, I would imagine the leasing effort is kind of collective.

Chris: It is.

Christy: Can you talk a little bit about sort of the hurdles in a quicker lease up process? Is it competition in the market or is it the rents that…?

Chris: If there is a soft segment in the Hawaii market, its mid-boxes. And while I already indicated that we didn't build out the mid-box at Ho'okele, we do have some mid box space at Pu'unene. So I'd say that's where the greatest softness is in the market. On the one hand it makes us feel very good about being primarily grocery anchored and not having a lot of mid-boxes, but we do have to acknowledge that on Maui and those in Pu'unene Center, we do have some softness there.

Having said that, we were conservative in our underwriting of the acquisition when we bought it. We bought it from Terramar a couple of years ago. We were pretty conservative in terms of the lease up, so I don't think that we're sideways to our underwriting, but it is certainly a slower process. And we are being very thoughtful about leasing the two. It's the same team, of course, leasing the two assets and so we're being thoughtful about the optimal tenants for each.

Christy: And Aikahi is a redevelopment project in pre-construction. Can you discuss the opportunity there and when you expect to commence?

Chris: Brett, you want to…

Brett: Yeah, absolutely. So that is actually already commenced; that we had plans in fourth quarter. We've already started some demolition work here in the first quarter. It's going to be the sort of asset that we initially had the ground lease of and then we were able to acquire the improvements. Nine years that was left on the ground lease so we bought that at a very healthy 25% cap rate. And then we were able to you line up some tenancy by moving – we have a veterinary clinic and we had a vacant theater.

So we're moving the – I think it was a great outcome based on our development team being able to rather – we originally anticipated scraping the theater space because it's obviously more difficult to build out. So we're able to relocate this veterinary clinic to the kind of less desirable space, if you will, in the back of the center and then open up space in the front for better leasing opportunities. And it's going to be a whole refresh, etcetera.

And we anticipate returns on that in the high single digits. As we were talking earlier, it's probably, just on the new tenancy and opportunity there, it's going to be probably even higher than the high single digits, maybe a 10 or 11%. But there is some deferred maintenance that we're putting in as well and freshening up the whole center because there was a lot of different maintenance on that asset there. So we're very pleased with how that's progressing and moving along.

Christy: Any questions? You've talked about a goal of G&A reduction. What's your 2020 outlook for that and how much will that ultimately come from selling Grace?

Chris: Well, independent of selling Grace. So Grace has historically been about $20 million of EBITDA and they've trimmed EBITDA quite a bit. I think that they'll be down potentially in the range of 20%, just at Grace based on some of the recent changes that they've made. If we were to sell Grace, then 100% of that would go away after the sale.

In the non-Grace arena, the corporate and real estate G&A, our G&A has been in the range of $40 million or so, and we would expect probably 5 to 10% reduction in the near term. But the big savings from the non-Grace part of the business, the corporate and the real estate, is really going to be dependent on further simplification of our business model. So after not only selling Grace, but selling some of our other development projects, simplifying the company, that'll help drive things like lower audit fees, lower other technology and accounting costs. As we simplify the business model, it'll just be a simpler business to run.

So it's going to be a gradual process. We do expect to make headway this year. But we also expect in future years, as we further simplify, to have incremental growth. There'll be a bit of a stairstep function as we achieve our simplification goals and also do things like defuse our pension plan, which is probably a couple of years off and things like that. So there'll be a number of elements to it.

Christy: And then just very quickly, we have a question here, Veracast. You have a 6.9% coupon note maturing in 2020? Where could you issue 10-year unsecured paper today?

Brett: Ten-year unsecure paper today with Treasury is now below 1%, it would probably be in the mid-2s, I'm guessing, 2$ maybe.

Christy: I would imagine the spreads have widened a bit.

Chris: Yeah, maybe a little bit, so.

Christy: All right, let's do a rapid fire. Will your property sector have more or fewer companies a year from now? So I guess you can pick your property sector. Is that retailer or is that industrial?

Chris: I think it's going to be unchanged.

Christy: Unchanged. Let's go with shopping centers for these questions. So what will same-store NOI growth be for the US shopping center sector overall in 2021?

Chris: Say 1.5 to 2.5.

Christy: So 2%. What will the 10-year Treasury yield be one year from today? Today it's 1.1, or no, it's 1 now.

Chris: It's right around 1. I'll say 1.5.

Christy: 1.5. And in what year will the US enter recession?

Chris: 2021

Christy: Great. Thank you very much.

Chris: Thank you.

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