Sheila McGrath: Good morning everyone. My name is Sheila McGrath from Evercore ISI and I'm pleased to be here speaking with Alexander & Baldwin CEO Chris Benjamin and CFO Jim Mead. Alexander & Baldwin for those of you who don't know is a one and a half billion dollar equity market cap Hawaii diversified REIT. The company is only in its second year as a REIT. I thought we should start out with Chris providing a background of Alexander & Baldwin. And I'll turn it over to you Chris.

Chris Benjamin: Thanks Sheila. And thanks for facilitating the session today. I am Chris Benjamin, CEO of Alexander & Baldwin. I am joined by Jim Mead our CFO. It's good to be back at Nareit and see so many familiar faces in the room today. This is our first REIT week since we completed our REIT conversion and I'm pleased to be able to report on a tremendous amount of progress over the past year. Even in the past six months since REIT world in Dallas.

Chris Benjamin: In fact, I'd like to take a few minutes to talk about progress on three fronts: the REIT conversion, the tremendous advancement of our Hawaii commercial real estate strategy and the steps we're taking to continue simplifying and improving our story.

Chris Benjamin: By way of background and briefly, A&B is a 148 year old company that is evolved from agricultural roots in the 1800s to broad operational diversification throughout most of the 1900s and has been in the process of becoming a focused Hawaii real estate company over the past several years. Essentially leveraging our deep knowledge of the state, our tremendous land assets and our strong reputation to create value in Hawaii real estate.

Chris Benjamin: In just the past six years we have spun off a shipping subsidiary, ceased to operate a struggling sugar plantation, migrated our commercial real estate portfolio from the mainland back to Hawaii, and converted to a real estate investment trust. It's been a remarkably rapid transition for the company but it's not quite done yet. So in the next few minutes I'll provide a little more detail on what we've accomplished and what we have left to do.

Chris Benjamin: Starting with the REIT conversion, we haven't yet filed our first tax return as a REIT so technically we're not completely done but all the other steps are complete. In fact, just last week we received the welcome news that we're being added to the various FTSE Nareit indices on June 15th. This follows the September edition to the RMZ and should help draw attention to the stock. The addition is reflective of having completed our E&P distribution in January after having made the decision to convert to a REIT effective January 1, 2017.

Chris Benjamin: We declared a special dividend in November of last year which included our E&P distribution and as I said, we paid that in January. There's been some noise in the stock since then and we look forward to more normal trading now that we're being added to the FTSE Nareit indices. Overall, the conversion of a 148 year old company to a REIT was complicated and time consuming but we believe the effort was well worth it as it positions us to create value in commercial real estate.

Chris Benjamin: That brings me to the second element of my update, the tremendous progress we've made in commercial real estate. A&B owns three million square feet of commercial space in Hawaii. Primarily, in high performing, mostly grocery anchored and drug anchored neighborhood centers throughout the Hawaiian Islands. The strong performance of our centers is underpinned by the top tier Hawaii market with attributes similar to other high performing coastal markets. In addition, with 87,000 acres of land in Hawaii, we have many embedded growth opportunities within the portfolio. I'm proud of several steps we've taken in recent years to solidify our Hawaii portfolio and strong market position.

Chris Benjamin: First and foremost is the migration of our commercial portfolio to Hawaii which we completed in the first quarter of this year. Our portfolio is now 100% in Hawaii and generating over 85 million of NOI. Through the process of shifting assets to Hawaii, we increased the value of the assets we own, solidified our position as the owner of the largest neighborhood and community center portfolio in the state, and greatly improved the strategic attributes of the portfolio.

Chris Benjamin: We also have expanded our pursuit of growth opportunities within the portfolio, including redevelopment of existing fee simple assets, reversion of ground lease assets and ground up development of entitled land. We have an active pipeline of development for hold projects and repositioning projects and are gradually scaling back our for sale development activity which historically has been a big focus for us.

Chris Benjamin: The third and final element that I want to highlight is our efforts to simplify our story and help investors appreciate the value of our non commercial real estate components. Those efforts include improving the performance of our materials and construction business, converting our Ag lands on Maui to diversified agriculture, and accelerating sales of our development pipeline with the ultimate goal of reducing the amount of capital we have invested in these non commercial real estate assets and businesses, strengthening our balance sheet and reallocating capital to drive further growth in commercial real estate. So with that, Sheila I'll turn in back to you.

Sheila McGrath: Sure. I thought we could first dig down a little bit deeper on Alexander & Baldwin's differentiated opportunity to continue to simplify the company and grow the commercial real estate portfolio. I wonder if you could highlight, Chris, your plans for increasing the commercial real estate portfolio and also, can you grow that portfolio from internally generated capital?

Chris Benjamin: We absolutely can. If you look at the composition of our business by asset base versus earnings, about two thirds of our earnings comes from commercial real estate but only a little bit over half of our asset base is in commercial real estate. Which means that we have a lot of non-commercial real estate assets that are generating less income and of course less REIT income or no REIT income.

Chris Benjamin: And so we have the opportunity by shifting that asset base over time from non-commercial real estate into commercial real estate to I believe, generate disproportionate growth and earnings as well as realizing much better valuation from the market because obviously the non-commercial real estate assets are tougher for the market to value.

Chris Benjamin: So, to your question about internally generated sources of capital, I think we have a tremendous amount of opportunity within the non-commercial real estate side to both monetize assets and reduce leverage, which will give us more ability to grow on the commercial real estate side. As well as, in some cases generate cash, or generate proceeds that can be 1031'd into commercial real estate. So I think we have a number of opportunities to transition our balance sheet over time more into commercial real estate and grow the NOI of the company.

Sheila McGrath: And following up on that, I'd like to highlight that in early ... you mentioned early in January, you distributed your E&P distribution. And I do agree that the trading and the stock, it's been under pressure because there might have been some tax loss selling. So from our perspective at Evercore, we think that your shares are trading at a significant discount to asset value. And I was wondering if you could highlight two or three near term strategic priorities for Alexander & Baldwin to try to close that gap.

Chris Benjamin: I would start with the fact that strategic priority for us is always going to be to grow the commercial real estate portfolio. So, that kind of goes without saying. But in terms of highlighting a few near term priorities in addition to that, I would start with de-levering. As you said, we did have to take on some additional debt to make the special distribution in January and we have a strong desire over the course of this year, the next several months and maybe the next year to significantly reduce our leverage. We think it's a good time to be doing that.

Chris Benjamin: That kind of feeds into the second priority, which is monetizing some of our non-commercial real estate assets including our significant development pipeline. We have a number of projects that we are looking for opportunities to either monetize and sell or bring in third-party capital so that we are not using our balance sheet to advance our development projects, our development for sale projects. Because we want to focus our capital more on the development for hold side.

Chris Benjamin: And then the third priority that I would highlight, would be improving the performance of the materials and construction business. As you know, it has struggled for a few different reasons in recent years, and this year for the first quarter as well. We've put in a new management team there. We've instituted a lot of new practices and I think we've got a very good path ahead towards improving the performance of that business. That's a very high priority for us.

Sheila McGrath: Okay. Then moving a little bit more detail on the commercial portfolio. Now exclusively in Hawaii we concur with the fact that it makes sense to be in more than one sector. So you're, in terms of improved property, it's mostly retail and then industrial. I think it's important to highlight the difference about your retail portfolio and a little bit detail on growing that industrial footprint.

Chris Benjamin: Sure. So with respect to our retail portfolio, it is primarily grocery anchored retail. There are two things that we like about grocery anchored retail particularly in Hawaii. The first thing is that it is in Hawaii and it is a little bit more, I wouldn't use the term immune, but it is certainly a little bit more insulated from some of the broader national internet disintermediation trends. The online sales penetration in Hawaii is much lower.

Chris Benjamin: So, retail in general in Hawaii, I think is a better story than it is broadly. But particularly with respect to grocery anchored retail, because the retailers in our portfolio are primarily the daily needs based retailers that again, tend to be more insulated from the broader internet trends. So if you look at the presence or the predominance of high risk retailers, which are mostly big and mid box retailers in our portfolio, it's much smaller than our peer set. Again, because we are primarily grocery anchored, so we don't have a lot of mid box and big box.

Chris Benjamin: So those are some of the attributes of our retail portfolio that we like. We are interested in expanding further in grocery anchored retail. Our real objective there is to have broad geographic coverage within Hawaii so that we can be really a single stop, a one stop shop or landlord for tenants that want to enter the Hawaii market with multiple locations. We're finding that, that is more and more the case. That retailers can have all of their needs met by working with us because of our geographic coverage.

Chris Benjamin: There are a few geographies that we probably will want to add, but then after we've done that, we're going to increasingly look to the industrial asset class as probably our next source of growth. There are a lot of attributes of the industrial asset class in Hawaii, which by the way is not, for those of you not familiar with it, it's not big distribution centers and Class A industrial space. It's almost more quasi retail kind of space. It's smaller buildings. It has a lot of retail elements to it and it's also very fragmented ownership. We think there are a lot of acquisition opportunities in the industrial segment. So that will probably be the next area we grow into.

Chris Benjamin: The reality is that we're going to be somewhat diversified within Hawaii, but we're going to be completely focused on Hawaii. So, while we're not going to be in ten different asset classes, we will eventually grow beyond our current primarily grocery anchored retail focus.

Sheila McGrath: Another component of the portfolio that's unique to Hawaii, would be the ground lease portfolio. That's provided a lot of opportunity and also cash flow growth. So I was wondering if you could give a little bit of that background about ground leases in Hawaii and how it's an opportunity for Alexander and Baldwin?

Jim Mead: I'll try this one. Chris will jump in if I make a misstep here. But the great thing about Hawaii real estate is that land values have been steadily increasing for many, many, many years. What we've seen in ground leases is the ability to do two things. One is to lock in over time, the increases in land value through market resets of the ground leases. So, if you think about a market where land has improved in value 2 to 3% a year for a long period of time. If you have a ten year ground leases reset, we're looking at a 20 to 30% type of reset in rents with no capital involved, no responsibility obviously for the property and a senior lien in terms of the cash payment from the owner of the improvements to us as the landlord for the land itself.

Jim Mead: So, we think it's a great way to capture land value growth over time in a senior position and a low risk position. Then, the second opportunity that we've seen in the past is the ability to, as a ground lease comes toward its maturity, the landlord has fewer and fewer incentives to continue to invest in the improvements. So, there's typically an inflection point where the owner doesn't want to own the building because he's got to make improvements to the building to keep it going. And we, as the owner of the land might like to own that building.

Jim Mead: So, we have a couple of examples in the past where we've converted our ground lease position into fee ownership of the improvements. One example is a property called Aikahi, which is a retail development anchored by Safeway. We bought it out at a 25% cap rate a few years ago and are now looking to do some redevelopment work on that asset, even though in the interim period we're cash flowing very strongly on it.

Jim Mead: Another example was Macy's that had a ground lease position in a very high-end area of Oahu. Macy's declined to renew it's ground lease or to extend its option. We took over the property and we've now redeveloped it into, really what's opening this year, is really a beautiful improvement of space. Great potential for value but in addition to that, a great addition to the community that we're building in. So, there's lots of elements to ground lease we like and our portfolio is a nice size portfolio, take advantage of all of those aspects. We would also look for the ground lease opportunities in the future, Sheila, if we had some to buy.

Sheila McGrath: Following up on the ground lease situation in Hawaii, I was wondering if you have explored opportunities to potentially buy the fee position in the land with OP units? I think as a REIT, that could be an attractive currency to defer taxes for owners that have very low bases. I'm just wondering if that's part of the strategy longer term?

Jim Mead: I think it is. If you think about the ownership of commercial real estate in Hawaii, much of it is a fragmented individual ownership, a model. And, as we've seen in other parts of the country, as the generations go on in terms of ownership, the interest in owning the real estate becomes less and less. The interest in managing real estate becomes less and less. The interest for liquidity and return of the capital becomes greater, so I think that we're heading into that generational phase of ownership in commercial real estate in Hawaii. Our challenge on our side, frankly is we need to get our stock price to better reflect the valuation of the company before it's really a legitimate tool for us to use to transfer assets using OP units. But it is something that's on our radar for sure.

Sheila McGrath: I think it would be interesting to highlight some of the development for hold projects. I think Jim, you just highlighted one, but you do have about 70 million under construction at this point. In your supplemental, the yields are approaching 10%. Just if you could give us a little bit of background on one or more of those and if there are future development projects on the horizon.

Chris Benjamin: Yes Sheila. So Jim touched on two of them. Aikahi is one that we took the improvements back and we're making further improvements to the center. He also touched on the Macy's that we've converted into a multi-tenant building. Took a 60,000 square foot box and we've demised it into a multi-tenant space with a couple of restaurants, some inline retail, a grocer and a fitness center and that, as you pointed out, that's going to earn us about a 10% return on cost on a roughly 20 million dollar investment. So, that's a very attractive opportunity.

Chris Benjamin: We also have some other repositioning opportunities that we are pursuing. We upgraded a theater and a food court at Pearl Highlands shopping center. We also have ground up development that we're working on. We are the fourth largest land owner in Hawaii. We have a lot of entitled land and there's a parcel on Maui that we are converting to ... well, we're building a ground up retail center there that is a Safeway anchored and Safeway gas anchored center where we also believe we will earn a return on cost probably a 150 to 200 basis points north of what would be an expected acquisition cap rate for that asset.

Chris Benjamin: That's kind of the premium that we target and we see a lot of opportunities going forward. There are some other land assets that we have where we can do ground up development as well as some other repositioning opportunities that we'll be pursuing. And potentially, to Jim's point, some additional ground lease assets that may revert back to us in the coming years that will give us additional NOI growth opportunity.

Sheila McGrath: Okay. Alexander and Baldwin has a very long history in Hawaii. Relationships and knowledge of the complicated entitlement process. Any thoughts on partnering with passive JV capital to expand your commercial real estate portfolio that might value entering into Hawaii with the local sharpshooter?

Chris Benjamin: We are certainly interested in all ways of growing the commercial portfolio. Our preference, given our long-term hold objectives on the commercial real estate side is typically to develop on our own. We certainly will consider JV capital for develop for hold projects, but our focus right now in terms of bringing in JV partners is actually on the development for sale side. Because that's where we would like to see some of these projects come to fruition, but not necessarily with our balance sheet.

Chris Benjamin: We are looking actively at bringing in outside capital into a number of our development for hold projects. While for the most part, our development, I'm sorry, development for sale projects while most of our commercial development, at least at this time we're envisioning developing that on our own.

Sheila McGrath: Okay. Then, with the Grace Pacific subsidiary, the materials and construction, it does complicate the business a bit. Just wondering, I know you're in the process of ramping and improving the cash flow there, but longer term, are there any restrictions over the long-term if that did continue to cause volatility? Restrictions on either selling or spinning off. Just if you could give us some insight there.

Chris Benjamin: So Grace, for those of you who don't know, Grace is materials and construction business. It's actually a vertically integrated business that goes everywhere from the quarrying of, mining of the aggregate, all the way thought laying down asphalt on roads, with some related businesses. It's a very strong business that has, for a number of reasons, struggled in the last couple years. We think the embedded value in that business is tremendous. So, our initial focus is on really trying to improve the performance of the business. But, to your question, long-term I believe that there probably is an opportunity to monetize that asset, to sell that asset. But I don't see that as an immediate objective because I think there's a lot of improvement that we can make to the business. But long-term, it is obviously not a strong fit with a commercial real estate company that's structured as a REIT.

Chris Benjamin: So to your question about restrictions, there really is no restriction. It's really just a question of tax implications. So, we have a relatively low basis in that business. Were we to sell it, we would have a tax liability that we need to be mindful of. So, if there are ways to potentially offset that tax liability or one of the options could be to spin off that business at a future date. To qualify for a tax free spin of the business, we would have to wait until we've been a REIT for three years. Which, in our case would be January 1, 2020. So, that would give us more options in terms of how to monetize it. But we wouldn't necessarily have to wait until that time frame if we were willing to pay the taxes on the business.

Sheila McGrath: Okay. Before we go to questions, I have one or two more. But, if we look over the next 12 to 18 months, it looks like that we can see news from Alexander and Baldwin about continuing to grow the commercial real estate portfolio, improving operations at Grace Pacific and it sounds like potentially seeking partners for the for sale housing business might be on the horizon. Could you just give us insights on what we should expect from Ag or large land sales? Is that something on the docket?

Chris Benjamin: No, I can't tell you anything. It's very difficult to predict and that's the thing. I think that our focus, with respect to our Ag lands is repurposing them into diversified agriculture. We have made it clear that we want to do that in a capital light manner, so were not going to be spending 10s and 100s of millions of dollars to develop new farming operations. We're going to be looking for partners to come in and most likely lease, potentially buy, these lands from us. We do have a couple of relatively small, but meaningful land sales lined up to government agencies this year. Maui County and the state of Hawaii are both buying some Ag parcels from us this year.

Chris Benjamin: We may see more of those kinds of transactions. We may see somebody come in and want to farm the land and want to acquire it, but our primary focus is on getting that land repurposed. Whether that's through a lease, a sale or even a JV, as long as we're relying on other parties' capital rather than our own to get those Ag operations going. That's our objective. So, anything is possible, but is very difficult to predict what will happen over the next couple of years.

Chris Benjamin: I would say, in addition to the things that you highlighted, that will happen over the next year, I would simply add, I do expect that through one or more of these initiatives that we've got going on to monetize some of the development land, advance the Ag business, improve Grace. I do think that through one or more of these things our story is going to continually get simpler. We've made a lot of progress over the last few years, but we are still more complicated than we know we can be long-term. So, we hope to make steady progress.

Chris Benjamin: The other thing that will be different in a year, is that we will be paying a current cash dividend. Whereas this year, we've paid our dividend as part of the special distribution in January, so we're not currently paying a cash dividend. That will be initiated next year. So, that will hopefully be one more thing to help get investor appreciation of the stock.

Sheila McGrath: Okay. I'd like to turn to the audience for questions. Yes.

Speaker 4: So Chris, as you look to shape the portfolio in coming years, how religious do you intend to be with prospective property types?

Chris Benjamin: So, Cary's question is how rigid or religious are we going to be in terms of limiting ourselves to certain property types. My reference earlier to an acknowledgement that we are going to be a diversified REIT within Hawaii is important because that says right there that we're not going to be solely grocery anchored retail. I will say however, I don't expect us to be in five or six or seven asset classes. I think that as we have developed an expertise and a bit of a market niche within grocery anchored retail.

Chris Benjamin: I think there's a great opportunity for us to do similar things within the industrial segment and begin to get synergies there. Now, industrial we are a very small player statewide in the industrial sector. So, it's a long time before we're going to have the kind of impact in industrial that we currently have in grocery anchored retail.

Chris Benjamin: But I do think there's opportunity there and for reasons I cited earlier in terms of some of the characteristics of that market and the assets and the ownership of those assets, I think there's a lot of opportunity there. There are certain asset classes that we most likely will not go into. But we will be somewhat opportunistic, but not completely scattershot. I hope that's helpful.

Sheila McGrath: Yes.

Speaker 5: I have five questions if-

Sheila McGrath: Uh-oh.

Speaker 5: -that could be indulged. The dividend question, and I apologize, I could've done this homework myself. Starting next year, a certain amount of dividends you'll need to pay out in order to maintain your REIT status, assuming it's declared by the board. Do you have a quarterly number already in the spreadsheet?

Jim Mead: So I can tell you that because we made such a large distribution to become a REIT. And because we elected to do it 80/20 to conserve cash, we also rolled into that special distribution in January, our expected dividend payment for 2018, which is about 40 million dollars of the distribution.

Speaker 5: Right.

Jim Mead: So, as a run rate of where we are this year, we expect that were we to have paid current dividends for the year, they would've been in the about the 40 million dollar range. Which is about 56 cents a share on the current number of shares outstanding. Or something like a 2.7% dividend yield today.

Speaker 5: Okay, that-

Jim Mead: So, as we go forward if the cash flows grow, that number should grow.

Speaker 5: Right. You're in the development business, which means development risk, which, that's your business model. I'm not being critical, is that always, you think, going to be part of your business model?

Chris Benjamin: No, we've made a-

Speaker 5: You can't just do growth by acquisition.

Chris Benjamin: Well, so let's distinguish between development for hold and developing commercial properties versus development for sale. We very clearly stated an intent to reduce our focus on development for sale. So, whether it's high-rise condos or resort residential or primary residential, that is something, over time, we will be scaling back. And already have scaled back to some extent. The development for hold, I think will be an important part of our growth strategy. But we have taken an approach of trying to significantly minimize the risk in that through preleasing of assets. Now obviously that doesn't completely eliminate risk, but we think that with, especially where we've got relatively low land basis in land that we can go vertical on and we can get strong preleasing, we think that, that helps mitigate risk pretty significantly. And that's why, that to me is a much lower risk form of development than some of the for sale stuff that we've historically done.

Sheila McGrath: It's also worth mentioning that some of the development is on legacy land that you have very low basis in.

Chris Benjamin: Right.

Speaker 5: My third question has to do with online penetration in Hawaii, which I think I know is majority because of the cost, extra cost of shipping, the extra distance. I may be wrong about that. I'm also a big believer that costs come down and sooner or later, somebody's going to attack your margins. Do you have a strategy in place for that or does the ... is your thought process that online penetration in Hawaii will just really not be a problem?

Chris Benjamin: No. I was very careful earlier to point out that we don't use the word immune. We don't consider ourselves immune from internet penetration in Hawaii. And certainly there is some, but both Alaska and Hawaii are significantly below the levels of the mainland. I do think that it's possible that costs ... timing actually is another big part of it. And of course, timing and costs are correlated. If you're willing to pay for next day air, you can get it there faster, but it's very expensive.

Chris Benjamin: So, we do anticipate that there will be more penetration over time, but I don't know whether the Hawaii market will ever warrant distribution centers by Amazon or others. The other thing that I would say is that within the grocery anchored segment, we think that, that asset class does tend to be less subjected to the disintermediation or the internet penetration. So, we don't have our heads in the sand about the risks of that, but I think that given our focus within Hawaii and the fact that we will be expanding into industrial and other things, I think that there will be some protection from significant impact from the internet.

Speaker 5: Okay.

Chris Benjamin: It's something we very much have our minds on.

Speaker 5: Then my last two questions are Hawaii specific, so you can answer them both at the end. In a prior life, I was pleased to do some business out there. I've been out 10 or 12 times I think on business. The Hawaiian economy has been described to me by people that live and work and are in politics there as terminally low level. Growth can only come from an increased presence of the military and I think I know the navy is putting a few extra folks there. But, that paradise is a wonderful place, but growth without more people from the military just can't happen. If you can comment on that because that says something about what you all can do?

Speaker 5: The other is, there's pools of cash ... You talked about joint ventures earlier. There's pools of capital in Hawaii that are both financially and culturally very interested in the success of Hawaiian companies. I'm thinking of one large estate in particular. Are those logical sources of joint venture capital? Not that they're ... they want to do a deal that makes sense for them too, but historically-

Chris Benjamin: Chris, you'll have to answer quickly because we're running over.

Speaker 5: Is that possible?

Chris Benjamin: Yeah, I would say that our business model in Hawaii doesn't depend on just on growth in the underlying economy or the population of the state. We are very focused on identifying opportunities to grow the portfolio through acquisitions and new development. We think that we've got tremendous growth opportunity in Hawaii. As I said earlier, we've got all of this internally sourced capital that we think we can turn into higher income by getting it into commercial real estate. We have very good relationships with pretty much all the real estate players in Hawaii and we have had discussions with a number of them about development opportunities. But in some cases, it's not their capital. It may be their land, it may be their expertise. There are a lot of different ways that we've partnered in Hawaii and we will continue to do that. I'm sorry for the very brief answer.

Sheila McGrath: Thank you for coming and everybody should visit Alexander and Baldwin.

Chris Benjamin: Thank you.