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Sheila McGrath: Good morning, everybody. My name is Sheila McGrath from Evercore ISI, and I'm pleased here to be with the senior management team of Alexander & Baldwin. Chris Benjamin, CEO; Brett Brown, CFO; and Francisco Gutierrez, SVP of Development. Alexander & Baldwin is a $1.6 billion market cap REIT. Ticker is A-L-E-X, Alex, which is the premier real estate company in Hawaii. The current dividend yield is almost 3%. The company has a long history in the State of Hawaii and converted to a REIT in 2017.

Sheila McGrath: Alexander & Baldwin is the largest owner of strip shopping centers in Hawaii. Given the size of the market, the State of Hawaii, is targeting the ownership of strips, shopping centers, industrial real estate, and ground leases in Hawaii. The company has been in a simplification process, increasing its ownership in commercial real estate with proceeds from non-core asset sales. I will have questions after Chris speaks about some background on the company, and then I'll open it up to the audience. With that, I'll turn it over to Chris.

Chris Benjamin: Thank you very much, Sheila. Thanks for moderating our session this morning. Welcome, everybody. I'm just going to take a few minutes to give a general overview of Alexander & Baldwin. We're a Hawaii-based company. We are a REIT, and most of our business activity now is commercial real estate within Hawaii. We are 100% Hawaii focused, and I'll talk a little bit about the transformation that has made that a reality because just a few years ago we were a commercial real estate, our portfolio was primarily on the mainland. As I said, our entire portfolio is in Hawaii. It's 3.8 million sq ft. As Sheila said, it's mostly grocery-anchored retail. We also have about 15% of our portfolio NOI in industrial, and another almost 15% is income from ground leases, which is a very important part of our portfolio that I'm sure we'll talk a little bit as we go along.

Chris Benjamin: Our strategy is to be the Hawaii sharp-shooter. We're the only Hawaii headquartered and Hawaii-focused REIT. Obviously, a lot of REITs have significant assets in Hawaii, but we are exclusively Hawaii. We know the market very well. We're a 150-year-old company and have long ties to all the communities in which we operate. Over the last six years, we've invested over $1 billion in commercial real estate in Hawaii to build this portfolio, and we've funded that primarily from 1031 exchanges, mostly US mainland properties that we sold. We started 2012, 2013 actually, we started with 25 US mainland properties spread mostly in the Western half of the US, but all the way as far East as Savannah, Georgia.

Chris Benjamin: We sold off all of those assets, invested 100% of the proceeds through 1031 exchanges in Hawaii. The second largest source of funding for our buying spree in Hawaii has been the sale of non-income producing land in Hawaii. We are historically an agricultural company, and we have been able to monetize a lot of that old primarily sugar cane land and reinvest the proceeds through tax efficient exchanges, and that's been the second primary source of capital. We've assumed a little bit of debt along the way, put a little bit of cash in, but most of our buying spree in Hawaii has been funded through 1031 exchanges.

Chris Benjamin: It's also been primarily through off-market transactions. Almost all the deals that we've done have been either off-market transactions or marketed opportunities for which we had a first look and a little bit of an advantage in the buying process. And so that speaks to our local knowledge, our local relationships, the fact that while it's a bit of an exaggeration, it's not too much of an exaggeration to say that virtually every deal that transacts in Hawaii, we generally get a look at. Certainly, within our preferred asset classes. And so that market position benefits us significantly.

Chris Benjamin: Let me give a quick example or a case study of one of the ways in which we really try to create value and as Sheila said we've been trying to simplify the company in recent years. One of the things that we've done to simplify the company is we've transitioned out of some of our historical agricultural businesses and we've monetized some of that land, as I said. In December, we sold about 40,000 acres of land on Maui for about a quarter billion dollars. And we have now reinvested 100% of those proceeds through 1031 exchanges into six assets that are two of them within the grocery-anchored retail category, two of them in the industrial category, and two of them in the ground lease category. These are the three asset classes that we favor.

Chris Benjamin: In a very short period of time, we were able to shake loose six very attractive assets at a blended 5.6% cap rate, which for Hawaii, especially considering that it includes ground leases, was a very favorable reinvestment cap rate. It speaks to the fact that we reinvested those proceeds in our targeted asset classes in a very short period of time, speaks to the deal flow that we have, the relationships that we have, and so very proud of that transaction, and we were very importantly able to take non income producing land that was actually costing us about $8 million a year to hold, and sell it, turn it into $14.4 million of NOI going forward starting next year.

Chris Benjamin: And so about a $22 plus million swing in EBITDA just based on that one transaction. So our portfolio overall is as I said a couple times, grocery-anchored primarily, but we have an interest in expanding our industrial portfolio. One of the reasons we like grocery-anchored is it's not tremendously tourist-oriented, and it's also a little bit less vulnerable to internet disintermediation. Our centers tend to be lifestyle centers, places where people go on a daily basis. We've really expanded and emphasized restaurant, food options, as well as other lifestyle kind of retail options to keep our centers very relevant and we actually have been doing very well with these centers.

Chris Benjamin: Our same-store NOI growth in the first quarter was 7.7%. We're projecting a more modest three to 4% for this year. But compared to our peers, that is really outstanding same store performance in the portfolio. We do feel that this is reflective of our Hawaii sharp-shooter advantages that we have. Not only do we know the market very well and can we identify great acquisitions and invest very strategically in Hawaii. We can also manage the assets very strategically. We're able to work with the local communities, understand their needs, understand how to reposition these assets, and we've got some great examples we can talk about in terms of how we have repositioned assets recently.

Chris Benjamin: We've also got scale that allows us after historically having outsourced most of our leasing and property management when our assets we're far flung across the US mainland and Hawaii, we now have critical mass in Hawaii to bring all of that in house. We now have all of our property and asset management in house. We have all of our leasing in house. That not only helps from a cost efficiency standpoint, but importantly it allows us to be much more strategic in our management of the assets, the leasing of the assets. It allows us to be a one stop shop for retailers wanting to come to Hawaii. And just, two weeks ago we were at ICSC meeting with a number of tenants that have an interest in coming to Hawaii with their first stores and also some of our existing tenants that want to expand.

Chris Benjamin: So we, we really are realizing the synergies of that grocery-anchored portfolio. As we move more and more into industrial, we're also seeing some synergies between our retail and industrial where we can provide warehousing space for some of our tenants. And we also think that as internet penetration does grow in Hawaii, which inevitably it will, even though I don't think it will ever be at the levels that it is in a lot of the contiguous states. I think that our warehouse industrial portfolio will help complement our retail and provide a little bit of a hedge against the Internet impact. The last thing I'll say and then I'll turn it over to Sheila to ask us some questions is to comment on the portion of the business that is not in commercial real estate.

Chris Benjamin: As Sheila mentioned, our yield right now is about 2.9%. Part of the reason that our yield is a little bit low is that about a third of our assets are non-income producing or are not producing REIT income. They're in a taxable REIT subsidiary. The process that we've been going through has been to monetize those TRS assets and transition the capital over to the REIT. That's a process that will continue and it will do two things. One is it will provide continued internal sources of capital just as we have, as I said before, we've... most of our acquisitions in recent years have been funded through internal sources of capital.

Chris Benjamin: It will continue to provide internal sources of capital, but it also helps simplify our story and get us to be a pure REIT within hopefully the next few years. And so, we're excited about where we are. We're excited about all the progress we've made in the last few years. The fact that our NOI this year will exceed $100 million for the first time, up dramatically from just a few years ago. And we feel like we're on the right path and I'm excited about the progress we're making.

Sheila McGrath: Okay. Chris, I thought it'd be helpful for people to understand in a little bit more specific detail on your advantages of being the local sharp-shooter. So I think your 1031 exchanges demonstrated that investing in assets that weren't for sale. I thought a good example, if you could just describe the Manoa Marketplace acquisition and how that demonstrated your local expertise and also as a follow up, the long history of the company in expertise in the entitlement process in Hawaii.

Chris Benjamin: Sure. Sheila, part of the biggest advantage that we have as a local player in the Hawaii market comes on the acquisition side. There are not a lot of transactions in Hawaii. There's a lot of long-term ownership in Hawaii. There's not a long list of marketed deals in any given year or at any given point in time. But we've, as I said before, demonstrated an ability to shake assets loose through off market transactions. And Manoa Marketplace is a great example where, there was a bifurcated ownership structure in Manoa Marketplace. There was a ground lease, that was owned by... the fee was owned by a local family that had owned it for many decades, if not generations. And then the improvements, the lessee of the ground lease was a California-based company that owned the shopping center. We worked with the local family for close to a year to warm them up to the idea of selling.

Chris Benjamin: And ultimately, even though they were not initially interested in selling, they ultimately decided to sell and sell to us because they knew as a local company, we would have the same sort of stewardship objectives that they had as a family. They live in the community, they frequent the shopping center. And it was very important to them that it be owned by a local player who would take it seriously, and take the stewardship responsibility seriously. So that was not only an example of the benefit of being local, but also, the benefit of patience and being able to build the relationship over time. Once we secured the purchase of the ground lease, which by the way was at a very, very low cap rate because it was set to renew in a few years.

Chris Benjamin: The tenant, which owned the improvements, decided that they recognized that we were never going to sell the ground lease. And even though they had hoped at some point to buy the fee, they decided to sell their interest. And so we were able to consolidate ownership of the center. The next step for us is the gradual repositioning of the center. We've taken a lot of steps there. Most of them more recently is cosmetic, by the way of replacing the parking lot, repaving the parking lot, working now on HVAC and those sorts of things. And then eventually we'll look to upgrade the facility in other ways. But, that's an opportunity not only to get a great asset at a good price, but also an asset that we believe we can really make more and more relevant for the local community.

Chris Benjamin: You talked about our entitlement expertise and we have been in the entitlement business in Hawaii for probably three quarters of a century now. We started in the late 40s, or maybe started in the early 40s, but we started building homes in the late 40s. Taking our former agricultural land and turning it into residential developments. And that's how we got into the development business. And now we're of course primarily in the commercial real estate business, but we are doing development of commercial real estate properties, both redevelopment of existing assets, and then ground up development.

Chris Benjamin: And so our entitlement expertise and our knowledge of the permitting process and the local regulatory bodies is very important. Whether we're doing a remodel or we're doing a ground up development or we're trying to get raw land entitled. So all of those things I think benefit us. And we also have, as Francisco can elaborate, we have a significant amount of land that already is entitled and gives us opportunity to develop more commercial real estate in Hawaii.

Sheila McGrath: Maybe Francisco could go into a little bit more detail. How much land is commercially viable for new development at Alexander and Baldwin and what advantage does that give the company?

Francisco G.: We do have an inventory of several hundred acres of urban and commercial land for all the islands. I think it's actually listed in our supplement. And this is a significant advantage because basically when we are ready to pursue an opportunity, we don't have to waste any time. Other developers may find themselves going through an entitlement process of nine to 15 years, and we do have this commercial land ready to go. We don't have to spend additional capital on land and our land basis is, because we own this land for a very long time, thank you, our land basis is significantly below market in most cases, which is another great advantage. So we're well positioned to execute on any new ground up development opportunities that we see if it's the right opportunity. I think a good example of that will be our project in Maui that we are currently working on, Ho’okele, that is going to be opening up later this summer that we're building for Safeway.

Sheila McGrath: Okay. Thank you. Chris, you've made significant progress as a company with the simplification over the past few years and the REIT conversion in 2017. I was just wondering if you could help investors think about what your next or understand what your next priorities are for?

Chris Benjamin: Sure. Yeah. Just to quickly recap some of the things that we've done for anyone who may not be aware. I did mention the Maui land sale where we had sold some of our former sugarcane lands. But prior to that, about two years before that, we actually shut down that sugar operation. And that was... it was a difficult thing to do. That was the legacy of the company, but the business had just become uneconomic and significantly unprofitable. And so we shut down the sugar plantation. We also sold off our coffee plantation. We kept the land, and we're ground leasing it to the tenant that operates the coffee plantation. But we've essentially gotten out of most of our agricultural activities. We've also sold out of most of our residential development for sale projects. And that includes a condominium tower in Honolulu, The Collection, primary residential projects on Maui, including Keala o Wailea and Kamalani and a resort product on the Big Island called Ka Milo.

Chris Benjamin: That is all part of our move from being a developer for sale to being more of a developer for hold and the work that Francisco is doing. And of course focusing on commercial real estate. So while we still do have some of those legacy development projects, we have sold out of most of them. The next steps for us... the most important steps are to continue selling through our remaining development for sale activities. That'd be primarily residential development. And then we own a materials and construction business, which is a very attractive business. It's a very important business to Hawaii with a long history, but it is not obviously a great fit in a REIT model. And so we've indicated a near to medium term intent to sell that business. We are going to be taking it to market this year to test the market and see if we can get favorable pricing.

Chris Benjamin: At the same time, we've made it clear that if we can't get favorable pricing, we're not in fire sale mode, we're going to be patient and we'll look to get proper value for that. But those are the two biggest steps that I think will help continue to simplify the story and simplify the company. Now what goes along with that, once we've accomplished those objectives, is really taking this old conglomerate company that we have and making it more of a streamlined REIT. As everybody knows, most REITs are purpose built companies, they started as REITs and they'd been built as REITs. We are a company that has evolved over literally centuries. And because of that, we have a lot of legacy costs and legacy issues that we have to look at and begin to rationalize.

Chris Benjamin: So for example, we still have a pension plan, and we'll ultimately want to defease that and, and, and get that off of our balance sheet. We have an organizational structure that supports really a conglomerate structure and we're going to look to streamline some of those things. So that's the other piece of the simplification that's more internal, won't affect so much the business segments, but it's certainly something that will be a requirement to get our structure, and our G&A, really to where it needs to be going forward as a REIT.

Sheila McGrath: I think it would be worthwhile digging in a little deeper on the advantages of being the largest strip center owner in Hawaii, arguably a high barrier market.

Could you talk about, any specific examples where after you've assembled this portfolio that tenants have actually started to do business in Hawaii through several locations at your portfolio?

Chris Benjamin: Yeah. Sure. That really is our goal. Our goal is to have sufficient geographic coverage and have sufficient grocery-anchored centers to be the one stop shop for new retailers coming to Hawaii. And there are a lot of them, quick service restaurants and retailers, who want to come to Hawaii. We had some great meetings at ICSC and that is our model, and we're already realizing that in some cases, give you one example. Last year Ulta opened its first four stores in Hawaii, three of them in our shopping centers. And so we were really very closely linked with them and their operations team as they developed their plans and developed their entry into Hawaii. And by being able to put them into four centers, greatly simplifies the process for them in terms of lease negotiation and coordination and even tenant build out.

Chris Benjamin: Francisco has a very strong tenant coordination team that is able to help our tenants with their move into Hawaii. And when you're coming from 2,500 to 5,000 miles away, that is a big deal and that's a significant advantage for us. So there have been and will be other examples where we do multi-tenant deals with new tenants. The other thing that we have is we've got a lot of existing tenants that want to expand and so they're familiar with us. We're familiar with each other's lease documents. That familiarity helps drive additional leases at other centers and as we expand our portfolio and we really are getting relatively close to having that geographic coverage that we want, because we're on all the major islands and we're in most of the submarkets of the major islands. We really can be that one stop shop. So we're excited about that.

Sheila McGrath: I think it's also worth mentioning the quality of your grocery-anchored center portfolio. If you could just highlight to people, one, if retail in Hawaii is a little bit more insulated from the internet and just how the occupancy and sales per square foot of your portfolio might even compare to other REIT portfolios.

Chris Benjamin: Sure. I'll ask, since I don't have a book in front of me, I'll ask you to Brett or Francisco to give the statistics, but I will say that our occupancy is I think roughly 94% right now. Our annualized base rent, for retail is $31, almost $32 versus our peer set on the mainland, which is $21 a square foot. So, almost 50% above our mainland peers. I'm looking here at Brett's. This didn't just pop into my head. I'm looking at Brett's papers here. So overall our portfolio is performing extremely well. We had, I can't remember if I mentioned this, but we had 7.7% same-store NOI growth in the first quarter. Our occupancy is very strong and generally the quality of the portfolio is excellent.

Chris Benjamin: Not all of the centers are brand spanking new and that actually is an opportunity for us. We have some centers that need a little TLC. Aikahi Park Shopping Center is one, and I'll let Francisco talk about that in just a second in terms of the repositioning we're doing there. But to answer your question about the internet, historically internet penetration is much lower in Hawaii. The reason is obvious, just the transportation costs and timing, but I'm always very careful not to acclaim immunity from internet penetration in Hawaii. The last thing we want to do is lull ourselves into thinking that we won't be impacted. What we are trying to do is make sure that we're anticipating that in two ways. One is keeping our centers as relevant as possible and the places that people want to go on a daily basis, whether that's for dinner, carry out food, shave ice, whatever it is that they may need on a daily basis.

Chris Benjamin: We want to make sure that our centers are as relevant as possible. A great example is Pearl Highland Center where we recently upgraded the theater and upgraded the food court, and that has helped drive the entry of Ulta into that center, Guitar Center, into the center very recently. And we will soon be... we believe at 100% occupancy. We have one final 3000 square foot space that we need to lease and we're well along in those negotiations. That'll take that center to a 100% occupancy up significantly from where it was before this modest refresh that we did. So those are the kinds of things we're trying to do to make sure that people come to our centers on a daily basis and help offset the internet demand.

Chris Benjamin: I said there were two things that we can do. The other thing is back to the industrial play that we're trying to make. We're trying to expand our industrial presence so that hopefully to the extent that there is more local warehousing, for example, for retailers who want to do in store fulfillment, that's a big thing with folks like Best Buy and others are doing, increasing in store fulfillment, which means they need offsite warehousing space because they don't have a sufficient back office space in their stores and we can fill those needs. So that's kind of our attempt. We do take comfort in the fact that internet penetration is lower in Hawaii, but we're not resting on our laurels. We're trying to make sure that we stay as relevant as possible. And then maybe Francisco could elaborate a little bit on Aikahi Shopping Center and just an example of what we're doing to refresh another one of our centers.

Francisco G.: Aikahi Center is very representative of our portfolio, it is basically a grocery anchored neighborhood center with a Safeway, 98,000 square feet. It was ground lease that the previous owner had really not reinvested much into the property. So by the time we got there, it had a lot of low occupancy of about 80%, and the NOI was about $2 million. We're investing about $15 million to refurbish the center, remerchandise. We expect an incremental NOI of $1.2 to 1.5 million over the original $2 million NOI. So low hanging fruit in our portfolio and I think that a lot of embedded opportunities within the existing portfolio that require a lot less capital than the ground up developments. So I think we're really chasing those opportunities first.

Sheila McGrath: I have one last question before we go to the audience. Brett, maybe you could talk about the... you have some capital tied up in Kukui’ula, a high end resort development, which has gotten a lot more active of late, just what are your long-term plans there? And maybe you could just touch on that development.

Brett Brown: Certainly. So we did last year look to potentially sell that. Went out to several potential buyers on that, didn't get the attention we were looking for. I should say we got the attention, not the pricing we were looking for. So thankfully, actually the activity has picked up there. We've been encouraged by that. We continue to sell the lots there and the completed developed whether it's single family units or multi there. So we continue to experience the traction there, we'll continue whether or not. So we are joint venturing with other developers there and looking to continue selling that out, whether it's over time and continue to just monetize that, or if we look to have another buyer that would come along, we would not obviously shy away from that, but we're not looking to fire sale and get out of that at any rapid pace. We want to be thoughtful about that and not leave anything on the table.

Sheila McGrath: Okay. Great. Are there any questions from the audience? Yes.

Speaker 5: I have a couple. The first is, after you paid the special dividend at the conversion. You gave accurate... it was guidance actually on when you would not be paying a dividend and when you would start, and now you're on the operating dividend then I think it was increased, but either way, that's good. Subject to board approval, are you able to give us a feel? I've only asked for guidance. What do you think about the dividend growth going forward?

Chris Benjamin: Okay, yeah. The question was for those who are listening in online, the question was about our dividend yield. The fact that we did not pay a cash dividend in 2018 because we had included our 2018 dividend within our special distribution in January of 2018, and we commenced paying a dividend earlier this year. And then also the fact that we did increase the dividend about 14% most recently and then for our second quarter dividend. So our dividend policy is essentially to pay out 100% of our REIT taxable income for the time being. At some point in the future we may pay out more than that, but we certainly want to pay out 100% of our REIT taxable income. We wouldn't anticipate paying more than that in the near term just because we have a lot of internal growth opportunities that we're pursuing.

Chris Benjamin: I would expect dividend growth to be tied in the near term to NOI as it grows from this most recent reinvestment. So what we're trying to do is we're trying to ratchet it up at a measured pace based on the reinvestments that we just did. So we're going to be increasing NOI by about 14 point 4 million dollars from those reinvestments. Plus we have some same-store growth. However, our current dividend doesn't factor in the entirety of that because some of that won't be realized until next year. Beyond that, I would expect dividend growth as we monetize some of our non-income producing assets in the TRS and transition those into commercial real estate and REIT assets. So as the REIT grows, and I do think we'll have disproportionate growth in the dividend as we go forward, because as we convert non-REIT income generating assets into REIT income generating assets, we should have nice growth in the dividend.

Speaker 5: Okay. Just my other... they're tied together in terms of military presence projections that will be flat, the Pentagon will increase or are they scaling back. And my second question somewhat tied into that is Hawaii is not the largest piece of property in the world, at some point you are already a big player there. How many years before you're serving all of the population, you won’t own all the centers, but what else will there be to do? Two years, five years, eight years?

Chris Benjamin: Quickly on the military, the question is about military growth. I have to admit, I don't have any particular inside knowledge about Pentagon growth in Hawaii. I do know that Hawaii continues to be a very important military base for the various armed services. And we've got a very good relationship with the military. I expect it to be a driver going forward. But to your question about don't we get to a point where we're servicing everybody and there's no opportunity to grow? I think that, first of all, with respect to grocery-anchored retail, we have a fair amount of upside. I think we could grow 40% or so and still be only at about 30% of the market.

Chris Benjamin: And I think that would be a comfortable level for us. So that's a good chunk of growth. But that's a part of the reason that we're looking at industrial because in industrial we're only about 2% of the market, so we've got a significant amount of growth that we could achieve in industrial. And I think there's a lot of head room for us in growing in Hawaii. And that's even before you talk about ground leases, which is another asset class, we would try to grow.

Sheila McGrath: I think there was one other question on this side of the room. Okay.

Speaker 6: The question is about the Hawaii State tax law and how that would impact.

Chris Benjamin: So there is a question about, the Hawaii legislature has passed a bill that would repeal the dividends paid deduction for REITs with assets in Hawaii. And essentially it would double tax REITs on their income generated in Hawaii that has passed the legislature. It's on the governor's desk. We've had dialogue with the governor, as have a lot of people locally. I can't predict where that will go, he will make his decision June 24th. I will say that there was an article over the weekend about the fact that the state budget office has identified significant additional tax revenue. To the extent that that takes some pressure off of the governor to sign this and other tax related revenue related bills, that could be a good thing, but it's really difficult for me to opine on what he will do. But we'll know on June 24th.

Sheila McGrath: Okay. Thank you everybody for coming.

Chris Benjamin: Thank you.