Client Id: 77

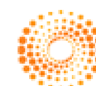
THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ALEX - Q1 2018 Alexander & Baldwin Inc Earnings Call

EVENT DATE/TIME: MAY 08, 2018 / 9:00PM GMT

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

CORPORATE PARTICIPANTS

Christopher J. Benjamin *Alexander & Baldwin, Inc. - President, CEO & Director*

Clayton K.Y Chun *Alexander & Baldwin, Inc. - VP, Chief Accounting Officer & Corporate Controller*

James E. Mead *Alexander & Baldwin, Inc. - Executive VP & CFO*

Lance K. Parker *Alexander & Baldwin, Inc. - Executive Vice President & Chief Real Estate Officer*

Suzy P. Hollinger *Alexander & Baldwin, Inc. - Vice President, IR*

CONFERENCE CALL PARTICIPANTS

Sheila Kathleen McGrath *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Stephen Michael O'Hara *Sidoti & Company, LLC - Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Alexander & Baldwin 2018 First Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Ms. Suzy Hollinger, Vice President of Investor Relations. Ms. Hollinger, the floor is yours.

Suzy P. Hollinger - *Alexander & Baldwin, Inc. - Vice President, IR*

Thank you, Andrea. Aloha, and welcome to our call to discuss Alexander & Baldwin's First Quarter 2018 Earnings. With me today are our President and CEO, Chris Benjamin; and Jim Mead, CFO. Lance Parker, Chief Real Estate Officer; and Clayton Chun, Chief Accounting Officer, are also here and will participate in the Q&A portion of the call.

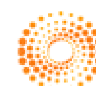
Before we commence, please note that statements in this call and presentation that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding possible or assumed future results of operations, business strategies, growth opportunities and competitive positions. Such forward-looking statements speak only as of the date that the statements were made and are not guarantees of future performance.

Forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from those expressed in or implied by the forward-looking statements. These factors include, but are not limited to, prevailing market conditions and other factors related to the company's REIT status and the company's business generally discussed in the company's most recent Form 10-K, Form 10-Q and other filings with the Securities and Exchange Commission. The information in this call and presentation should be evaluated in light of these important risk factors. We do not undertake any obligation to update the company's forward-looking statements.

Management will be referring to non-GAAP financial measures during our call today. Included in the appendix of today's presentation slides is a statement regarding our use of these non-GAAP financial measures and reconciliations. Slides from this presentation are available for download at our website, alexanderbaldwin.com.

Chris will open up today's presentation with a strategic update and some context for operating performance, and he will then turn the presentation over to Jim, who will discuss financial matters and guidance. Chris will return for some closing remarks, and we'll open up then for your questions.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

With that, let me turn the call over to Chris.

Christopher J. Benjamin - *Alexander & Baldwin, Inc. - President, CEO & Director*

Thanks, Suzy, and thanks, everybody, for being on the call. Our story for this quarter is very consistent with the past several, and can be boiled down to 3 value-creation themes: continued strong execution of our strategy, excellent performance from our core commercial real estate business and continued focus on improving and/or monetizing our non-commercial real estate operations.

Let me take these in turn. I'm proud of the great strategic progress we've made on many fronts over the past few years, but perhaps nothing has been more important than our Mainland to Hawaii migration, which we officially and successfully completed in March, with the disposition of our last mainland commercial properties to fund the previously announced acquisition of 3 premier neighborhood and community retail centers from Terramar. That acquisition not only facilitated our entry into 2 new strategic Hawaii locations, but catalyzed the dispositions of our last mainland commercial properties.

We started the migration process in 2012 shortly after the spin-off of Matson. And in just over 5 years, we have invested nearly $1 billion in highly strategic Hawaii assets funded primarily by mainland dispositions that, in total, generated $600 million in sales proceeds. More importantly, we have grown net operating income by 37% over that time and created a concentrated attractive portfolio. We're now focused on integrating the new assets into the portfolio, including leasing up the new space at Pu'unene Shopping Center, which is going quite well.

We'll also open Lau Hala Shops later this year, advance leasing and construction of Ho'okele Shopping Center and commence our Aikahi Park Shopping Center repositioning project.

Also in the first quarter, we completed the final step in our REIT conversion with the January special distribution, another important strategic milestone, marking the closure of a monumental, but value creating endeavor for the company.

As I said, the second theme is the continued strong performance of our commercial real estate portfolio. This is the core business of the company, and our results demonstrate the strength of the Hawaii market and the high quality of the assets we've purchased and developed. Operating profit in our commercial estate segment increased 8.4%, while same-store NOI increased by 2.8%, which is in line with our plan. And we achieved re-leasing spreads of 10.2% during the first quarter. Based on our leasing schedule, we are reaffirming our full year same-store NOI growth guidance of 3% to 4%.

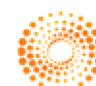
Not only was the quarter strong, but it follows multiple quarters of strong performance, which we expect to continue. Our commercial real estate portfolio's performance is underpinned by solid market and portfolio fundamentals. And I want to spend a little time discussing the Hawaii market.

Before I begin my comments about the market, let me just say that we're thinking of the people on Kauai and the Big Island who have been impacted most by the recent rains and volcanic activity. While the impacts have been significant, they have been geographically isolated, and we're fortunate that our real estate assets and employees have not been directly impacted. But as a member of this tightly knit community, we are committed to supporting the recovery efforts and are working with the local residents and agencies on those islands to determine how best to do so.

Turning now to the commercial market. Hawaii, while often categorized as a secondary or tertiary market, actually has similar characteristics to a Gateway or a Tier 1 market. By many measures, median household income, retail spending per capita, personal income growth and unemployment, Hawaii is right there with California and New York.

Strip retail in Hawaii is further characterized by low supply per capita, which is kept relatively low due to the complexity and length of time to complete the zoning and permitting process. We also have lower Internet sales penetration than mainland markets, principally because of the high cost of shipping to and from Hawaii. Demographics within the portfolio are even stronger than the Hawaii market generally and are above average when compared with several strip retail peer companies. As a result, annualized base rents for our portfolio of $29.05 and average grocery sales of $789 per square foot, are among the highest in the nation.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

In addition, because we own predominantly neighborhood centers, our exposure to the retailers that Green Street deems at risk, particularly big- and mid-box retailers, is low -- is a low percentage of our total rent as compared to the average for the Green Street strip center coverage universe.

We're forecasting continued strong performance from our commercial real estate business this year, and as I said, are reaffirming our guidance of 3% to 4% increase in same-store NOI.

The third theme I referenced above relates to our noncommercial real estate businesses. We're making a concerted effort to improve the performance of our Materials & Construction business and to minimize capital going into and/or to pull capital out of our development for sale projects. These are objectives that we've talked about previously only in general terms, primarily because our highest priority until now was on completing the REIT conversion and migrating the portfolio. But now that those efforts are complete, we're increasingly focused on improving and simplifying the non-REIT parts of the business. We know this is the part that investors struggled with the most, and so we need to address it.

Let's start with the Materials & Construction business, which I know has been a frustration for our investors. Since our acquisition, we've had shifts in commodity pricing, unusually wet and sporadic weather, competitive pressure, permitting challenges and other operational headwinds. We're not where we'd like to be, but Grace remains a fundamentally strong business platform, with tremendous assets and people, and we're focused on how to get it back to and beyond its earlier levels of profitability. We made some positive progress in the quarter, but it obviously is not reflected in our financial results, which were very poor. Among the steps taken of late are a management realignment, both with internal promotions and a few outside hires; the completion of a year-long operational review that has triggered several recent and pending changes to operational practices; and an upgrade of financial systems to facilitate greater transparency and decision-making.

The new President of the Operation, Pike Riegert, who assumed the role in March, has expanded our sales initiatives to increase the amount of aggregate and hot-mix asphalt we sell. As I've told many of you, we're a material company, not just a construction company, and expanded material sales can help boost revenue and margins. With these positive initiatives underway in the business, I'm actually quite optimistic about the direction we're going, about our financial prospects for the medium and long term and even for a much better performance over the balance of this year.

I'll let Jim give more of the details on the quarter and the outlook. But suffice it to say, that our first quarter results are not our run rate for the balance of the year. Performance should improve dramatically in the coming quarters.

In Land Operations, the focus is not so much on improving operations, which are going quite well, as it is on continuing efforts to sell through existing retail inventory, condos, townhomes, residential lots and industrial lots, and to either sell or attract third-party capital into various for-sale developments, builder parcels and undeveloped urban zoned lands.

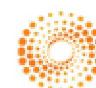
In addition, we continue to advance our diversified ag efforts and are in advanced lease discussions with several tenants. Finally, we're progressing toward the sales of a couple of ag parcels on Maui, including land for an airport expansion in Kahului and an expansion of the Maui agricultural park.

Let me provide a little more color on all of this activity. First, we had several sales of residential inventory in the first quarter that together generated $28 million in net cash proceeds, including a Kahala Avenue oceanfront parcel and several units at Kamalani, Keala O Wailea, Ka Milo and Kukui'ula. We hope and expect to continue selling through our residential inventory this year, including about 40 more units at Kamalani and the entire balance of The Collection and Keala O Wailea units.

One of our strategic objectives has been to reduce our for-sale development activity while we shift to more development for-hold activity. However, some of our vast landholdings are already entitled for residential development, and we want to realize value from that land over time while also ensuring that much-needed housing is developed for our local communities.

So this leads us to seek capital and development partners for completion of these projects and, in some cases, sell land to third parties rather than develop it ourselves. Examples of joint ventures where our land is developed using partner's capital are Ka Milo and Keala O Wailea, and we also have sold a number of Wailea and other parcels to developers in the past. So as we look to shift our focus and reduce our leverage, we have several assets that are candidates for JVs, recapitalization or even sale.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Among the properties for which we're seeking outside capital are Wailea and some urban parcels in Kahului. In addition, we are initiating a process to seek significant investment in a further build-out of Kukui'ula, where we believe accelerated vertical development could greatly enhance the project's absorption, but don't feel that this investment is consistent with our shareholders' priorities for capital deployment.

We're early in the process of testing the market for interest in most of these assets, but this is a primary focus for our team now that our mainland migration is done. Success in these efforts will support our delevering process, but the timing and impact is difficult to predict.

With that strategic and economic background, let me turn the call over to Jim to discuss our first quarter earnings in more detail.

James E. Mead - *Alexander & Baldwin, Inc. - Executive VP & CFO*

Thanks, Chris. Good afternoon. Before I go into the results to give you a better context, we feel good about our ability to achieve our overall plan for the year. Our core commercial real estate performance is generating very good results, and we completed the acquisition of the Terramar Hawaii properties and the sale of the remainder of our mainland portfolio ahead of plan. Land and development sales were slow, but that is consistent with our land and development plan, which has few material transactions scheduled for the first half of the year.

And although Materials & Construction was impacted by weather and a few other items that I'll speak to later, we are working hard to make back the lost ground from the first quarter. So when we get to guidance, there won't be any surprises as we are generally on track for the year.

Turning to earnings. Our diluted earnings of $0.66 per share included $0.69 per share of gains from the properties we sold to fund the Terramar acquisition. So without those gains, we had a loss of $0.03. The loss was due to seasonality of land sales, the loss at a builder joint venture at Kukui'ula and the underperformance in our Materials & Construction segment.

In total, the sales of the last 7 mainland assets that started in the fourth quarter and ended in Q1 had gains net of impairments taken at the end of last year totaling $7.8 million. We got better sales prices than we had underwritten, and we also closed the transactions ahead of our expected schedule. In other words, we feel like the execution was great.

Turning to Slide 18. As Chris discussed, our commercial real estate portfolio continues to show well-underpinned results. And in particular, retail continues to perform very well. In total, we are on pace to achieve our full year guidance metrics. Leasing volume was strong, with over 300,000 square feet in Q1. We had a 10.2% same-store leasing spread overall that included 7.5% in our 100% Hawaii retail portfolio.

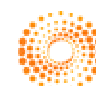
Occupancy was down in the industrial portfolio with a previously anticipated move-out of a 45,000 square foot tenant at the Komohana Industrial Park. Hawaii industrial continues to enjoy very low availability, so we anticipate re-leasing the vacancy in the next couple of quarters and achieving an uptick in the rents. Our portfolio is relatively small, so individual vacancies affect our overall occupancy. Retail vacancy held about the same at 93%, and we are also on plan here, especially considering the excellent pace of our leasing activities. And 2.8% same-store NOI growth was on plan for the quarter.

The Land Operations segment produced net operating loss in the first quarter of $5.4 million. A large contributor to the quarter was a $4.2 million loss due to construction remediation issues at a builder joint venture on the Kukui'ula property. I should point out that this is a discrete event and our only activity with this one development partner.

During the quarter, we generated $28 million in cash from sales activities that included the closing of a sale in Kahala for a net $15.5 million, $6.4 million from closings at our Kamalani affordable housing development in Maui, and distributions from our joint venture developments, including Keala O Wailea totaling $6.1 million.

Chris described a very fulsome pipeline of land and development related activities, and we believe this will translate into a very active 2018. However, the activities and our plan are back ended for the year, and so we had nominal operating profit from the Land Operations segment in Q1, and we would also expect the same in Q2.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Our plan to reduce company debt by year-end depends upon the success of our efforts to both monetize assets and bring in capital partners to reduce our future capital requirements. So execution of our land and development strategy is important to us and a big focus of our team.

Turning to our Materials & Construction segment, we reported $0.2 million of operating profit versus $5.6 million last year, and $3.1 million in adjusted EBITDA in comparison to $7.9 million last year. The result was substantially lower than our plan for the quarter. The largest contributors were reduced paving volumes and higher material costs. Poor weather reduced our available paving days by 26%. We have fixed cost in running the business, so reduced paving volumes also compresses margins. And related to business improvement initiatives we've spoken about in prior calls, we incurred higher SG&A, largely as a result of management reorganization. On the positive side though, we are already seeing results from our new Grace management team and its execution of the strategy we articulated recently to expand third party material sales, which is a high-margin activity and a large driver of profitability. With the increased focus on sales, we already have more than half of our year's budget under firm contract or verbal commitments.

These are encouraging third-party sales results and we are working hard to catch up on weather delay paving activities. We don't know yet how much improvement we can make during the remainder of the year but are cautiously optimistic that we can regain much of the lost first quarter profit.

The fundings stat for Terramar was completed ahead of our schedule. We have financed the acquisition through 1031 exchanges sourced by mainland assets sales, 3 noncore Hawaii sales, a land sale and the assumption of a $62 million mortgage. You will recall that in the fourth quarter, we closed on $100 million in term financings to prefund the $156 million cash portion of the special distribution this January. We supplemented that with a $50 million 5-year bank term facility in Q1. This bank financing is low cost and unlike institutional fixed rate term loans, carries no prepayment penalties, and so provides a part of our capital structure that we can repay to the extent we have proceeds from monetization activities.

We closed the refinancing of our $62 million Series E debt in April. We selected this piece of debt because it had a short average life due to its large annual amortization payments by fixing the debt in 3 financings. With an average maturity of 9 years, we were able to increase our average debt maturity and reduce our cash requirements over the next few years.

Our average debt maturity pro forma for the refinancing increases from 5.6 years to 6 years. And 72% of our debt is fixed rate. Because our plan includes paying off floating debt during the year, I would expect the fixed rate percentage to increase by year-end.

Slide 22 recaps of the balance sheet changes during the quarter. The most significant of which was the impact of the special distribution. You will recall that at year-end, we had some nonintuitive accounting that included treatment of the special distribution as all equity for share count purposes and all debt for balance sheet purposes. You can see in the schedule that the balance sheet and number of outstanding shares now accurately reflect the 80-20 stock and cash composition of the $783 million special distribution.

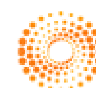
We presented guidance on certain key metrics in last quarter's call. None of our guidance is changing for the year, particularly the Commercial Real Estate segment of our business is anticipated to perform very well this year and achieve the guidance we presented at year-end. Although we did not give specific guidance on land sale expectations because of its episodic and generally difficult to calculate profit forecast, we are comfortable with the progress we've made to meet our internal execution plans and should be able to provide more clarity as the year progresses.

Q2 is not expected to have material profits from land sales, which will be weighted towards the second half of the year. As I said earlier in the call, achieving our debt reduction goal depends upon the successful execution of our land and development strategy. You will recall that I said we are targeting a mid-5x debt-to-EBITDA by the end of the year, and we are still on track for that result.

As for Materials & Construction, while we did not provide formal guidance because of uncertainties in the business such as weather, we are starting the second quarter behind plan, but feel there's still good opportunity to gain back ground during the remainder of the year.

Let me turn the call back to Chris.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



Christopher J. Benjamin - *Alexander & Baldwin, Inc. - President, CEO & Director*

Thanks, Jim. We've continually made strong progress in advancing our strategies over the past several years, most recently with the completion of the REIT conversion and the mainland migration. Of course, we're disappointed this hasn't translated into a stock price that reflects our true value, but we can only stay the course and continue to simplify and tell our story. Our commercial portfolio continues to perform well, and we're fortunate that the fundamentals of our operating environment and the portfolio are strong.

We're on track to meet the full year financial guidance for our commercial real estate and expect to significantly advance major projects to grow future net operating income. We'll remain diligent in building out our commercial real estate portfolio, tenanting our spaces and renewing our leases but our strategic focus has incrementally turned toward executing priorities in our other 2 business segments, Land Operations and Materials & Construction.

I'm pleased with the headway we've made with several of our priorities for these segments. Executing on these priorities is critical to achieving the guidance that Jim just discussed and to creating long-term shareholder value. I look forward to updating you on our progress on future calls.

That concludes our formal comments, and we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Sheila McGrath with Evercore.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

The recent spreads were strong in the quarter. I was wondering if you could give a little bit more detail on those results. In the release, you mentioned some industrial, and I wasn't able to glean if those were after the quarter, the strong industrial leasing spreads.

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive Vice President & Chief Real Estate Officer*

Sheila, this is Lance. So with regard to those industrial spreads, that was from Honokohau. That's the 77,000-square foot industrial park that we bought in the middle of last year over on the Big Island of Hawaii. And when we purchased it, I think we talked about the investment thesis there. One of the opportunities was the fact that almost half of the tenants were on month-to-month rents or leases and our ability to convert them to long term. So we've been systematically working through that process and have been able to get leasing spreads as a result.

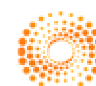
Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay, great. So did that leasing happened within the first quarter?

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive Vice President & Chief Real Estate Officer*

That did happen within the first quarter. Correct.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay, great. And then, Jim, you mentioned getting down to mid-5s on net debt-to-EBITDA with the source of the capital primarily from land sales. I'm just wondering if JV is more tax efficient? Or is there a lot of leakage by tax leakage by using land sales as a source of debt paydown?

James E. Mead - *Alexander & Baldwin, Inc. - Executive VP & CFO*

Yes. Right now, so it's difficult to predict what tax leakage there will be. There's always the possibility for taxes as we transact. And when we sell things outright we generally transact out of the TRS. So they are potentially taxable transactions. So I would say that there can be some tax leakage, but that's kind of in our plan against the assets that we're looking to sell through the year. I don't think though that -- I'm trying to get to what it is you want to...

Christopher J. Benjamin - *Alexander & Baldwin, Inc. - President, CEO & Director*

Well, I guess -- maybe I can jump in for a second. I think that in terms of generating cash, first of all, some of these assets, such as Kahala, Wailea, some of the assets and of course, a lot of our development assets, while they don't have -- while there will certainly be some margin and some profit that would be taxable, there's also the return of capital that is very important to helping delever. So the return of capital, obviously, would not have any tax implications. And then within -- as far as the tax hit goes, tax reform does reduce it somewhat. So I think it would be, the reality is that we would -- the vast majority of the proceeds would be available to pay down debt.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay. That's good. And then, Chris maybe on acquisitions. Obviously, first quarter was super active. I'm just wondering if there's anything in the pipeline that you're looking at? And how you would think about sourcing capital to fund new opportunities?

Christopher J. Benjamin - *Alexander & Baldwin, Inc. - President, CEO & Director*

Sure. And I'll let either Jim or Lance chime in as well. But we certainly have an active pipeline. But I would say that with our primary focus this year being on delevering, we're not really looking actively to put new cash to work or to acquire additional assets with debt. That would leave the most attractive -- that would mean that the most attractive capital source for new deals would be either 1031 proceeds if we were to have some eligible land sales. And I did reference a couple of ag parcels that we're looking to sell on Maui. That could generate some proceeds. And then, of course, we've talked also about the possibility of an UPREIT transaction. But I'd say right now for a variety of reasons, most of our teams' focus is a little bit more on the disposition or recapitalization side, working on some of these deals that we've referenced to try to delever, get ourselves into a better balance sheet situation by the end of the year. And then, I would think, if we've done that, we would be in a much better place to look, be more acquisitive perhaps next year. So Lance is nodding in agreement. I guess the way to paraphrase all that is we've got a good pipeline, but I think given our balance sheet right now, we're focused a little bit more on the disposition side than the acquisition side.

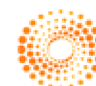
Operator

(Operator Instructions) Our next question comes from the line of Steve O'Hara with Sidoti.

Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Could you just talk about Grace. So what you're saying, you're talking about improving. Are you talking about improving off of what I -- it seems like a pretty rough first quarter, or are you talking about improving off of next -- last year's numbers?

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Client Id: 77

Christopher J. Benjamin - *Alexander & Baldwin, Inc. - President, CEO & Director*

Well, the first point that I wanted to make is that certainly, the $3 million and change of EBITDA this quarter is not a run rate for the balance of the year. We had talked on the last call about an EBITDA result for the year in the range of $30 million, and while I can't say that we're -- it's very difficult right now given where we are to handicap whether we'll hit that, be within a couple of million dollars of it or maybe even exceed it. , What I can say is that we're going to be a lot closer to that number than we would be to 4x our first quarter numbers. So that's the main point I want to make, where we do expect much better performance as the year goes on. Even, however, at $30 million, as you know, that would still be where we had been when we purchased the business. And it's been trending down for the last few years for some of the reasons that I referenced earlier. And look, we've got to accept that environments change, markets change, commodity pricing changes, competitive environment changed. There are a lot of changes that are outside of our control. But what I'm trying to convey is that we are very proactively rolling up our sleeves and addressing a number of issues in that business that, I think, are going to help drive better performance over the next couple of years. To some extent, that has been some management changes, but also it's been a number of process changes. It's new financial systems that, I think, are going to give us much better insight into the drivers of performance in that business. It's increased sales activity that, I think, is going to increase revenue and margin in the higher margin part of our business because we make more money in materials sales. So it's a lot of things, and there's an energy out at Grace, and there's a focus on our part at Grace that I am very encouraged by. But I realize, at this point, you're going to wait and see. But I personally feel very good about the steps we're taking and the direction we're going with the business.

Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Okay. And then just maybe sticking with that real quick. Can you just remind me, I mean, it seems like there's -- it hasn't performed, I guess, up to expectations or your expectations, I don't think for a while now. Some of it's been weather so it's been pretty intense competition, I think, in terms of the bidding process. I mean, within the organization, was there a management change that was unexpected or anything like that, that maybe left you guys without the right team in place? Or was it more just market forces and everybody's kind of going through the same issues in this part?

Christopher J. Benjamin - *Alexander & Baldwin, Inc. - President, CEO & Director*

Yes. It's a tough question to answer, Steve. I think it's -- there were a number of -- I think it's a combination of a few things. There were a number of environmental changes that happened very shortly after we acquired the business. And by environmental, I don't just mean weather, although that was one of them. Commodity pricing changes, competitive changes, there are a number of things that fairly soon after our acquisition impacted performance. There was, in general, there was a feeling that these issues would pass, and I think that we certainly hope that some of them would pass more quickly. They did not. And what we have more recently decided is that while certainly there are some improvements that could happen in the external environment, we've got to be more proactive about controlling our own destiny here. And so that has led us to take a number of actions, including engaging some consultants to come in and really take an independent hard look at the way we operate, making some management changes, getting some fresh blood in and also getting some folks into new positions. And importantly, I referenced it very briefly, really digging in and improving our financial systems in order to make sure that we have the most complete view of the drivers of profitability in the business. So while it's really been a combination of both externally and internally driven factors, the only thing that we can control are the internally driven ones, and I feel that we are now doing that in a very proactive way.

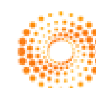
Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Okay. That's helpful. And then just on the -- I think you may have mentioned this, but -- on Sheila's question, the re-leasing spread from the quarter, full year guide, I think lower than that. Was it one property? Or is it just a mix of things coming up is maybe expected to trend down? Or maybe a little bit of conservatism on your part?

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive Vice President & Chief Real Estate Officer*

Steve, this is Lance. So it's really just as we looked out for the next 3 quarters. Comfortable with reaffirming our guidance, but just recognizing the opportunities that we have coming up in the portfolio are not going to be as high as we've seen in the first quarter. That said, I would say that we

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

do feel very good just about the leasing environment in general. Obviously, we had good, strong leasing spreads for the quarter, but also in terms of volume and other things that we've been able to accomplish, we're feeling good about the rest of 27 -- or 2018 rather.

Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

Okay. And then -- that's helpful. And then just lastly, I mean, in the press release, you talked about a number of projects that are ongoing. And I think it sounds like you're going to come on line soon or starting to come online, yet, I guess, the shops in Kailua. But, I mean, have you talked about what type of impact you expect that to have on NOI or maybe leasing spreads in 2019 or how that might look going forward.

Christopher J. Benjamin - *Alexander & Baldwin, Inc. - President, CEO & Director*

So we have had a schedule, and I don't think we had in the slides today. It's in the supplement. It's a schedule of our development for hold projects, and that's not only roundup development like Ho'okele but also our repositioning projects. And so that gives detail on not only what sort of NOI, I believe, we expect to generate but also the general timing of when we expect those projects to stabilize. So Lance or Clayton, feel free to jump in.

Clayton K.Y Chun - *Alexander & Baldwin, Inc. - VP, Chief Accounting Officer & Corporate Controller*

Yes, Steve, in the supplemental, you referenced the incremental stabilized cash NOI for Lau Hala, which is the Kailua property you were referencing and there we stated 2.2 to 2.7 as far as the incremental impact.

James E. Mead - *Alexander & Baldwin, Inc. - Executive VP & CFO*

It's NOI. That's right yes.

James E. Mead - *Alexander & Baldwin, Inc. - Executive VP & CFO*

So we're trying to weigh it out. Did you have another part to that question that I missed?

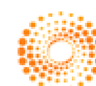
Stephen Michael O'Hara - *Sidoti & Company, LLC - Research Analyst*

I guess, just there's a number of projects going on, and maybe they're all laid out in that schedule, I have to go back and look. But I mean, it would seem that assuming the leasing environment stays healthy and you bring these projects online, and you talked about a new type of NOI growth rate that you're targeting for 2019 or maybe that you can expect just based on the projects you have here.

Christopher J. Benjamin - *Alexander & Baldwin, Inc. - President, CEO & Director*

Yes. So Steve, first of all, we have not yet projected or talked about NOI growth for 2019. But we have reaffirmed our 2018 same-store growth expectations. What I would say just as a high-level summary of the stuff in our pipeline that you're referring to, we've got about a $69 million total project cost on 4 different projects that we're building out. And we expect that to generate about $5.5 million to $6 million of NOI. Those assets and those projects are expected to come online and reach stabilization anywhere from, in the case of Pearl Highlands, middle of this year to out till 2021, in the case of Pu'unene. So by using the table which is Table 17 in our supplement, I think you can get a pretty good sense of how that new development or repositioning will help be additive to NOI, but we have not provided any guidance on the same-store NOI from the existing portfolio. And we would probably not expect to do that until late in the year.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Operator

And we have a follow-up question from Sheila McGrath with Evercore.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Just on Lau Hala Shops, that 88% leased. What's left to lease? And that will open late in the year. Around when will it open? And I'm assuming not everything opens all at once, it's just kind of will phase into stabilization next year. Is that right?

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive Vice President & Chief Real Estate Officer*

That's correct, Sheila. So right now we have just the in-line spaces that are available. So we have a total of 6 bays. And these are in between our 2 restaurants, which are Maui Brewing Company, as well as Roy's, which we would expect to open toward the end of the year. The first tenant that we expect to open will be actually UFC Gym, and they've got the entire second floor space. They're already in there doing some work. And then the last tenant, at least for deals that we've inked, will be Down to Earth, and that won't be for about another 1.5 years. They have another existing location in Kailua and the deal is timed to be sort of co-terminus with their expiration.

Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay. And is there a decent amount of activity on the remaining space to lease?

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive Vice President & Chief Real Estate Officer*

We've started to see a pickup in activity, I think, particularly for the in-line bays. We really expected that those were going to be more local tenants, and for those types of users, we have to be closer to the completion of construction. We just took the dust screens down last week. So if you look in the slide deck, there was a really nice shot that we were able to provide. That was literally the day that we took the screens down. So with us now at that point in the project, we do expect activity to pick up.

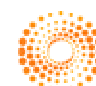
Sheila Kathleen McGrath - *Evercore ISI, Research Division - Senior MD & Fundamental Research Analyst*

Okay. Great. And then, Chris, you did change the operations some with the REIT conversion, bringing in leasing and management in-house. So I was just wondering if you could talk about how that process is going strategically. Do see benefits for that? And how -- is that cost savings? Or kind of a push? Just talk about how you view that change.

Christopher J. Benjamin - *Alexander & Baldwin, Inc. - President, CEO & Director*

Yes. So let me talk broadly and then let Lance jump in specifically with respect to property management. But broadly speaking, the company has changed dramatically in the last few years. And it's been a huge undertaking for our employees. It's been a lot of work. It's been a lot of stress, and they've done an amazing job. I would say I wish I could say that it's all done and everything's stabilized, but we're still transitioning. We're still bringing on -- it's still a couple of property management positions we're looking to fill, some leasing positions. We've still got a few accounting positions open. So we're still in transition. But overall, I'd say it's really a remarkable effort that people have undertaken. And we're a very different company today, and that can be a traumatic thing. With respect to property management, I absolutely think it's both, it's very strategic. And Lance can elaborate on some of the reasons for that, but I think both leasing and property management and property accounting bringing all of those things in-house really is very strategic, and Lance can talk a little bit more about how it's going.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



Client Id: 77

Lance K. Parker - *Alexander & Baldwin, Inc. - Executive Vice President & Chief Real Estate Officer*

Yes. So I would just add to that, Sheila, I mean, I think, cost aside, which I think we're still a ways away from being able to truly measure what the savings benefit is going to be, that it's really just, number one, being closer to our tenants and being able to provide better customer service to them, which in turn, will lead to hopefully quicker deal times, higher retention, which, of course, ultimately leads into better retention in our properties and higher rents. But if you look at our ability to take down the Terramar portfolio, we did that really for the first time with all of these services in-house from property management and leasing and our investment team all being able to underwrite. And I really do think it gave us the competitive advantage at the end of the day to win the project. So those to me are sort of the harder-to-measure benefits right away that we're seeing of bringing that in-house. And as Chris mentioned, we still have some additional positions that we need to fill out, and we'll continue to do that throughout 2018.

Operator

Thank you. And this concludes today's Q&A session. I would now like to the call back over to Suzy Hollinger for any closing remarks.

Suzy P. Hollinger - *Alexander & Baldwin, Inc. - Vice President, IR*

Thank you, everyone, for being on the call today. If you have further questions regarding earnings, please call me at (808) 525-8422. Thanks.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may now disconnect. Everyone, have a great day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.

©2018 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS