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Alexander & Baldwin Inc A&B Agreement With Mahi Poni Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Alexander & Baldwin Strategic Update 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 Mr. Kenny Kan, Vice President of Capital Markets. Sir, you may begin.

Kenneth Kan ***Alexander & Baldwin, Inc. - VP, Capital Markets***

Thank you, aloha and welcome to Alexander & Baldwin's Strategic Update Call. With me today are President and CEO, Chris Benjamin; and Diana Laing, our Interim CFO.

Before we commence, please note that the 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 in 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 of the statements were made and are not guarantees of future performance.

Future-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 as well as the evaluation of alternatives by the company's joint venture related to the development of Kukui`ula, generally discussed in the company's most recent Form 10-K, 10-Q and other filings with the Securities and Exchange Commission. The information in this call, 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 the call today. Slides from this presentation are available for download at our website, alexanderbaldwin.com.

For our agenda today, we'll have Chris go over the Maui Land transaction details and then provide an update on strategic transformation. Then he'll turn it over to Diana to go over the financial details of the Maui Land transaction as well as other financial matters.

With that, let me turn it over to Chris.

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

Thanks, Kenny, and good morning to everyone listening in. We're taking the unusual step of holding a premarket call today because we announced a significant transaction yesterday, and feel it's important to give the market a full understanding of the transaction, how it advances our strategic transformation and how we're progressing on other elements of our strategy.

Since we completed our conversion to a REIT in 2017, our core commercial real estate, or CRE portfolio, has continually performed extremely well, with strong re-leasing spreads and same-store NOI growth, a steady pace of redevelopment opportunities and growing efficiencies and synergies in our Hawaii-concentrated portfolio. But that good news often seems to be overshadowed by questions about our noncommercial real estate elements. For that reason we've remained focused on further simplification of our story, unlocking value from outside our commercial real estate portfolio, reducing leverage, and generating capital for continued CRE growth.

A major goal this year has been accelerating the repurposing of our former sugarcane lands. I believe the transaction we announced yesterday, the partnership with Mahi Pono, LLC and the sale of the bulk of our Maui agricultural lands to them, could be one of the most important advances for agriculture in Hawaii in many decades.

Mahi Pono is a farming venture between California-based Pomona Farming and Montréal-based PSP Investments. They're the perfect partners to help reverse the trend of shrinking agricultural output in Hawaii, thanks to their farming experience, their long-term patient capital source and their plans to grow a wide range of crops for local consumption and export. The transaction advances our goal of converting our Maui Lands to a new diversified farming model. The transaction also unlocks value from our vast land holdings on Maui and facilitates its reinvestment into Hawaii Commercial Real Estate assets, consistent with our desire to shift non-income generating assets to income generation. And it will provide an important source of growth capital for our portfolio, while making the company easier for investors to value. It also reduces the significant costs associated with holding these lands.

Before I discuss deal specifics, I want to say I'm tremendously proud and appreciative of the efforts of the dedicated team that successfully completed this land sale. We gave the project an internal code name of project ratoon. Ratoon is a new growth from the sugarcane plant after harvesting, and the name perfectly reflects what we were trying to accomplish with this transaction, to ensure that there is a regrowth of agriculture on our former sugarcane lands. Our team did an outstanding job of shepherding this very complicated transaction through buyer due diligence and getting us closed yesterday. This is only the latest example of our team's ability to execute complex, value-creating deals that benefit the local community in Hawaii.

The deal includes several elements, but most important from a financial perspective is the sale of 41,000 acres of agricultural land from -- for $261.5 million cash, which we intend to reinvest in Hawaii commercial properties. Because the buyers' plans for these lands are entirely focused on farming, the continued productivity of the lands is very important. There's a provision for a contingent rebate to Mahi Pono of a maximum of $62 million in the event that certain eventualities adversely impact water availability, and therefore, the productivity of the land. We will reserve that amount as well as an additional $19 million of various holdbacks and contingent obligations on our books and recognize them only when we determine they can be properly booked as income. The structure, however, provides for exchange of the full $261.5 million of proceeds.

The second element of the transaction will result in a joint venture that will manage the East Maui Irrigation system. Pomona will be responsible for the operating costs of EMI and the parties will jointly pursue the long-term water lease process that A&B previously initiated. This portion of the transaction will be completed in February.

It's worth noting that A&B is retaining many assets on Maui, including all of our commercial real estate assets and the Ho'okele Shopping Center, which is under construction. Our other development projects, our valuable quarry sites, including potential future expansion areas around the quarries, the former sugar mill site in Pu'unene, which includes about 60 acres of industrial-zoned land, and also roughly 6,000 acres of agricultural land in Central Maui and on the north shore of the island that was not critical to Pomona's farming program. So we will continue to be a major player on Maui and committed to the island's success. We also retain all of our ag land and energy assets on Kauai, since this transaction focuses only on Maui.

Diana will provide details regarding the book and cash impacts of the transaction, but we expect to book roughly $165 million gain in 2018. Since all of the land proceeds would be reinvested to qualified property exchanges under section 1031 of the internal revenue code, we actually will not generate cash from the transaction in 2018. But rather we'll fund about $14 million of closing cost and holdback. We've made a lot of progress in our reinvestment efforts and are confident we'll be able to buy high-quality Hawaii assets with the proceeds, furthering our goal to grow as a Hawaii commercial real estate company and of course enhancing cash flow from that business.

I'm truly proud of what we've accomplished with this transaction. But I have to acknowledge the sentimental side of the deal as these are the lands where the company was founded and do represent an important part of our legacy. Nonetheless, I consider it our duty to steward the lands and find a way to keep them productive, and I'm convinced we've found in Mahi Pono a unique combination of farming expertise and financial resources. The lands are now in the hands of an entity that intends only to farm them and can return them to productivity in a way that we could not.

The transaction is likely to improve our annual EBITDA by roughly $20 million. Our holding cost for these lands were about $8 million per year and would have risen over time had we not been able to repurpose them. The present value of these future savings is significant and the lands likely would've lost value over time without active cultivation as water systems and other infrastructure deteriorate. While our objective was to increase our agricultural activity over time, Mahi Pono will be able to repurpose the lands much more quickly. Additionally, we can now reinvest the proceeds into Hawaii commercial real estate assets that will appreciate over time. If you assume we reinvest at a conservative 4.5% cap rate, we would generate initial NOI of about $12 million annually once those reinvestments are completed.

Diana will provide some additional insights into the financial implications of the deal. But let me reiterate that I think it's a great outcome for the company and Hawaii, as I believe this will kick off a new era of diversified agriculture on Maui and of course, benefit our shareholders.

Let me now comment more broadly on our strategic transformation. As we continue on our long journey from an operationally and geographically diverse company to a Hawaii-focused commercial real estate company, we continue to pass milestones at a steady pace. Earlier this year, we completed the migration of our commercial portfolio from the U.S. Mainland to Hawaii, and now we take this major step of re-purposing the majority of our agricultural lands. Previous steps, of course, included our separation from Matson, the gradual shift from development-for-sale to development-for-hold and our REIT conversion. But I've also acknowledged in recent calls that we have more steps ahead of us, including the continued monetization of our development-for-sale pipeline and addressing the challenges presented by our Materials & Construction business. A transformation of this type will naturally have twists and turns. Income will not be realized with every step, but every step should advance the strategic cause and move us closer to the value-creating endgame. As an example, when we migrated the portfolio to Hawaii, we didn't make money on every Mainland sale, nor generate higher initial yield on each reinvestment. But we created tremendous value through the process, increased NOI and converted a nonstrategic portfolio to a strategic one in the market we know best. Some of the remaining steps of our broader transformation will generate profit and others may not, but all will lead us to our goal of being a Hawaii-focused commercial real estate company and unlocking the value inherent in our assets.

The 2 biggest remaining steps are the eventual monetization of Kukui`ula and Grace. While I've not been quite so blunt in the past, I do acknowledge that these assets ultimately will be in better hands with a different owner, and our story will be simpler and our company easier to manage in value. Our strategic shift changes our long-term intent with respect to these assets, but that doesn't mean a transition will be simple or immediate, only that we're focused on making it happen. Let me describe where we are with each of these and what our next steps will be.

At Grace, we remain in rebuilding mode. We've talked about new leadership there and some evolving operational practices, and now we're heavily focused on the implementation of a new financial system. These are positive changes and the team is making great strides, but most of the efforts have not yet borne fruit. We've decided we can't await a full recovery of the business before initiating a review of our strategic options. While we've not made any decisions regarding Grace, we expect to retain an advisor to assist us in laying the groundwork for a possible marketing process. This process is an acknowledgment of the fact that despite the tremendous value embedded in the business, it will be difficult for us to realize that value as a REIT. Not only are we not the optimal owners and operators of a Materials & Construction business, now that we're focused on commercial real estate, but our investor base generally struggles to embrace the business or embrace us as its owners. So we will initiate this process while simultaneously continuing our efforts to improve the operating results of the business.

We have concluded that an impairment of between $70 and $80 million on Grace's balance sheet is warranted and will be recorded this quarter, due primarily to persisting competitive market pressures that have negatively affected the sales and margins in the paving, quarry and roadway solutions operations. This will be primarily a reduction in the goodwill we recorded when we purchased Grace, but also will include some adjustments to a few other asset accounts. Diana will elaborate on that in a few moments.

At Kukui`ula, we've explored the possibility of selling the entire project to a qualified developer or financial sponsor with the goal of recovering as much cash as possible from our investment and ensuring that Kukui`ula's further development proceeds unabated with a committed and well-capitalized development group. We solicited interest from third parties for a potential sale of the development, but ultimately, we're not satisfied with the results of the process and are pulling back from it. We currently are working with our development partner, DMB Development, to formalize plans for advancing the project over the next few years. We will look to access third-party capital where appropriate, while also being open to a transaction at the appropriate time with an appropriate party. The project is doing well at this time, with 2018 set to be a postrecession high watermark for sales, and we're encouraged by the pace of activity. Nonetheless, given the change in strategy for our TRS asset, which does not allow us to continue to maintain a long-term view on Kukui`ula, we believe that the full recoverability of our investment is doubtful, and we're likely to record a significant impairment of our carrying value in the joint venture. We're still conducting our analysis and we expect to complete it in time for recognition in the fourth quarter, an announcement on our late February earnings call. It's difficult to predict at this time the magnitude of the impairment but it could be a material portion of the project's current carrying value. Notwithstanding our changing strategy at Kukui`ula and the likelihood we will have a noncash reduction in our carrying value, we recognized the importance of our continued commitment to the project as we position it for longer-term success and transition.

Before I ask Diana to elaborate on the financial matters I've just introduced, let me say that I'm very excited about the strategic progress we're making. Our past successes are well recognized and appreciated by investors, but many of you continue to wait for greater simplicity in our business model and greater clarity regarding our future. With our Maui Land transaction yesterday and our commitment to exploring strategic options for Grace, I believe the CRE-focused future of the company comes into much greater focus. We are actively growing our commercial real estate portfolio, while reducing our exposure to non-income producing and non-REIT assets.

I'll be back with a few closing remarks, but let me ask Diana to expand on the financials.

Diana M. Laing ***Alexander & Baldwin, Inc. - Interim CFO***

Thank you, Chris. First, I'll discuss the book and cash implications of the Maui Land transaction. Total consideration for the sale of the 41,000 acres is $261.5 million, all of which is eligible for 1031 exchange. We'll pay closing costs of $6 million and we'll escrow $7.5 million for post-closing indemnifications. Our book gain on the transaction will be approximately $165 million, which is calculated as the purchase price of $261.5 million, less our book basis in the land of $9.2 million, closing costs of $6 million, the reserve for productivity rebates of $62 million and a reserve for contingent liabilities of $19 million. These reserves will be held on our books and recognized only when we determine they can properly be booked as income.

As result of this transaction, we will have approximately $261.5 million to invest through tax-deferred 1031 exchanges, by mid-June of 2019. Assuming an average cap rate of about 4.5%, the annualized stabilized EBITDA generated by these investments would be approximately $12 million. The annual cost savings associated with the sale of the Maui Land and EMI are approximately $8 million. So the combination of these 2 items equates to annualized incremental EBITDA of about $20 million. We expect to make these acquisitions without additional leverage. A significant benefit of the transaction is that we can improve our current debt metrics by increasing NOI from our commercial real estate portfolio without increasing our debt. Based on current adjusted EBITDA levels, excluding property sales and current debt levels, we should see an improvement in debt to adjusted EBITDA of more than a turn, once we've completed and stabilized our reinvestments. This transaction represents meaningful progress in our effort to convert non-income generating assets into commercial real estate assets in the market we know. By increasing our core asset base, we should also benefit in the long term from efficiencies in the management platform by adding to the scale of the portfolio with minimal increases in asset management personnel and other costs. We've often referenced our ability to increase scale in our commercial portfolio using internally generated sources of capital and this is a great example of doing just that.

As we look toward the next step in our strategic transformation, and as Chris mentioned, we're evaluating the carrying value of Grace Pacific based on our current view of the operating environment and our latest estimates for future cash flows from the paving business. As a result, we believe we'll be recording noncash impairments to our carrying value of Grace in the range of $70 million to $80 million during the fourth quarter. We're also evaluating the carrying value of our investment in Kukui`ula and a noncash impairment charge against our approximately $315 million carrying value of Kukui`ula may be appropriate. It's too early to estimate the magnitude of any potential impairment, but we expect to complete our evaluation before issuing our fourth quarter and full year financial statements. I want to reiterate Chris' message that this evaluation will not adversely impact the continued operation or the development of the project itself.

And finally, we're reviewing our ability to realize the deferred tax asset related to our taxable REIT subsidiary. As a result of tax losses incurred in the TRS over the past 3 years, primarily from the Materials & Construction business, we expect to record a noncash valuation allowance against the deferred tax asset of approximately $16 million. Please note that the tax losses that gave rise to the deferred tax asset are still available for us to use in the future. This valuation allowance is for book purposes only.

And now, I'll turn the call back to Chris for his closing remarks.

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

Thanks, Diana. There's a lot to digest here, but I would summarize by saying our core commercial real estate business continues to perform extremely well, and we are actively advancing our strategy of shifting capital from our non-CRE businesses and assets to CRE. Once we've reinvested the ag land proceeds, our NOI run rate will be roughly $100 million annually, all from Hawaii assets. When we started out strategic transformation in 2012 with our separation from Matson, our Hawaii NOI was $27 million and total NOI was $63 million. This means we have nearly quadrupled our Hawaii net operating income and increased our total net operating income by about 60% since 2012. I'm proud of the track record we have established and proud that we are able today to add an important milestone to our list of accomplishments.

With that, we'd be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Sheila McGrath with Evercore.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Congratulations. I think this is a big move and certainly higher value than we had in our model. I just want to understand that part of the contingency because there were three buckets, I guess, two- $30 million buckets and another I think $17 million or $19 million. If you could just explain those in a little bit more detail?

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

Sure, Sheila, this is Chris. So the total potential productivity rebates are $62 million. They're in two separate components, two equal $31 million potential rebates. Without then getting into too many details, they basically key off of our ability to retain the productivity of the lands by virtue of retaining access to water. Now the water thresholds implicit in those determinations or those rebates are by historic standards quite modest levels. And so we think that given the very compelling farming plan that Mahi Pono has, the importance of agriculture to the central valley of Maui and a number of other factors, we believe that it's likely that water will be available. But we have to -- of course, given that the provision is in there, we have to make the reserve until -- create the reserve until those contingencies have passed. The other $19 million is a combination of some post-closing obligations and contingent liabilities in the agreement. Some of them relate to environmental matters, some of them relate to other kind of post-closing obligations. So it's hard to say -- it would be surprising to me if we needed to tap into all of those contingencies, but certainly some of them are pretty much known obligations that we will have to fulfill. As time goes on, we'll be able not only to provide more color on our expectations for that but also reverse some of that into income as we determine that it will not be needed.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay, great. And then just by way of background, if you could just tell us like how long this process took? And the interest level, was there more than one party at the table interested in the transaction?

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

Yes, let me answer that in a couple of ways. First of all, we've had literally hundreds of parties come to us with various farming proposals, and we've thoroughly vetted, as I said, literally over 100 of these. Most of them were for components or portions of the plantation. They were for anywhere from 1,000 acres or 500 acres up to 15,000, 20,000 acres, and we worked with a number of them. We've had just a handful of people approach us about the entire plantation. And I'll say that this buyer had the unique combination of not only deep financial resources but also significant farming expertise and proven access to marketing channels that we felt, overall, made them far and away the best candidate and frankly, the most likely candidate to be able to consummate a deal. And so for that reason, we've been focused on them for more than six months I think. We've had essentially exclusive discussions with them for more than six months. But I will say that for the first year or two, post the sugar shutdown, a year, 1.5 years, we did have discussions with a lot of folks but then we concentrated on these folks within the last six months or so.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay. And I'll ask one more question and get in the queue. But on the reinvestment of proceeds, I think Diana mentioned something about June. Do you expect that you'll be fully invested by June? And if you could just talk with us about the type of properties that you have in the pipeline potentially at this point?

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

Sure. So our team is very actively looking at and making offers on Hawaii assets. We're fortunate to have so far negotiated deals for about $110 million or so of the proceeds. Now of course, they're -- these are going to be subject to final negotiations and due diligence, so we can't guarantee that they'll all close. But if we assume that they close, then we would have the ability to identify roughly $400 million or so of assets for the remaining $150 million of investment. So we've got a fair amount of flexibility because we can identify a total of up to 2x the proceeds. So we've got flexibility to identify a lot of assets and pursue a lot of assets. We have a number of things in the pipeline right now and a high degree of confidence that we'll be able to close. And, yes, to answer your question, the ID deadline is 45 days from closing. So roughly 7 weeks -- 6 to 7 weeks, and then the transactions have to be closed by the mid-June call. So we have quite a bit of flexibility in the identification and quite a bit of time to execute. And we are focused entirely on Hawaii assets at this time. And a mixture of the kinds of assets that we've historically looked at, both retail and industrial are -- those are our primary focus. We could also potentially invest in ground lease assets. And that's part of the reason that we were conservative on the cap rate because while we certainly will be buying some assets that I would expect to yield much higher than a 4.5% cap, we may be investing in assets that yield lower because they are ground lease or even developable land for commercial properties. So that's why we've provided a relatively conservative cap rate.

Operator

(Operator Instructions) Our next question comes from Steve O'Hara with Sidoti & Company.

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

I'm just curious, it sounds like some of the airlines there and I think UHERO's kind of backed off some of their projections. Maybe you could talk a little bit about what you're seeing on the cap rate side? What you're seeing on the local economy there? It seems like tourism's slowing a little bit. I'm just kind of curious how that's shaping up and maybe what -- how that factors into your 2019 outlook?

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

Okay, Steve. Yes, I was just asking Kenny because I had not seen that. I thought I had seen recently that UHERO was projecting continued sort of normal growth. So I certainly don't feel -- look, I think we're all cognizant of what's happening nationally and globally right now, and I think it's conceivable that, that could have some impact here. But I haven't seen any leading indicators of slowdown in Hawaii. I think cap rates remain strong. We continue to have good experience with our leasing activity. We haven't seen a lot of red flags. I do think that we'll be cautious as we develop our plans for next year because I think we do have to be cognizant of the fact that just generally the economy and the markets are in -- facing potentially a little bit of a funk but I haven't seen anything specific to Hawaii. Kenny, feel free to jump in, Kenny, if you've got other thoughts?

Kenneth Kan ***Alexander & Baldwin, Inc. - VP, Capital Markets***

I guess the other thing is that we have grocery-anchored shopping centers that are generally less influenced by tourism in Hawaii. And so that's a factor to consider.

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

Okay. Yes, I apologize. I guess, what -- with UHERO, I guess, what I meant, yes, they seem to be moderating from their growth expectations as time goes on, which I mean, obviously, is expected. But I'm just -- I mean with the markets kind of in tumult here and some slowdown in China and so forth, I'm just wondering -- I know China's kind of small -- a very small tourist piece there. But I'm just -- it seems like things are maybe a little less bullish for 2019 globally, I guess, than maybe you would've expected 6 months ago or something like that.

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

Yes, certainly wouldn't argue with that. But I haven't yet seen signs of that having direct impacts on Hawaii. But of course, as I said, we will probably approach 2019 from a budgeting standpoint fairly cautiously just because of the potential for that. But haven't seen any signs of it yet. In fact, Southwest announced last week that they're going to start service up. Generally, the airline, Hawaiian has added a couple more nonstops. United's -- Delta's adding a nonstop to the Midwest. So it's been a pretty strong tourism market, and I haven't seen any signs of it slowing down. But Kenny does make the great point, which is that even if tourism slows down, we're not highly dependent on the direct tourism trade, although, everybody in Hawaii benefits from it.

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

Okay. And then just on -- can you just remind me what the carrying value of the Kukui`ula JV is on the balance sheet?

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

Yes, it's about $315 million.

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

Okay. And I guess on the -- I thought it said that in the slide deck that sales had kind of stopped or terminate current sales process. And is that -- was that new or was that something that was announced previously? I can't remember.

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

No, I had talked in previous calls about the fact that we were going out to the market to evaluate various recapitalization options, whether it was a sale of the project entirely or bringing in some new equity. We weren't really pleased with the results of that process and decided that given the fact that the project is performing better and the fact that we -- I think we're in a kind of a tough stage right now to find a buyer for a project like this, that we're best off, for the near term, continuing with the project, continuing to advance it, but remaining open to a sale opportunity in the future. The other thing and really the thing that will -- that is driving our evaluation of our carrying value is the fact that our horizon for the project is shifting from kind of forever or 20-plus year build-out and sellout to probably a shorter time horizon. And that we can't retain our kind of long-term view on the project from an accounting standpoint. So it doesn't impact -- it's not a cash issue, it's not going to be a cash flow consideration, but it will be potentially, as we get through the analysis, a change in the accounting value that we -- the carrying value on our balance sheet.

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

Okay. And then maybe just last for me. I mean, obviously, you're in the process of deciding what the best course of action is with a number of assets. And can you just talk about how you weigh selling them at the most appropriate price versus holding onto them? And -- I mean, obviously, you don't want to -- I think you've talked about the past, you're not generally looking just to sell things, to make the story simpler unless the value is correct. I mean, I assume that's still a commitment. I'm just wondering if you could maybe expand on that a little bit.

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

Yes, Steve. It's -- I'd say the biggest criteria -- obviously, it's a question of what you think your long-term -- net present value of your long-term cash flows from its particular asset is going to be. And that's the first test as compared to what you can get for it in the market.

But the other consideration -- the two other considerations that we add to that are one, what's the near-term cash flow requirements to hold the assets. So for example, with these ag lands, we had significant holding costs associated with these ag lands. And so the ability not only to get a very attractive value but also to get the lands repurposed and to avoid those holding costs made that a very compelling strategy. If you have another asset that you feel you don't have much holding costs and you can hang on to it and sort of see it through a cycle, then you might be more inclined to hold that asset. The other consideration that I would add, and this is really probably more the case with respect to Grace, is just really how does it impact your overall story and your positioning. And I think the challenge with Grace, even though I have a very high degree of confidence that Grace is going to recover over the long term and be a very valuable company and asset, we have the nearer-term challenge of just trying to get investors to embrace our story as we own that asset. So as I said in my prepared remarks, we have not made a decision on Grace. But I will say that one of the considerations certainly is the challenge that we have in getting the investors to embrace the story with Grace in our portfolio.

Operator

(Operator Instructions) Our next question is a follow-up from Sheila McGrath with Evercore.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

I just was wondering if you could clarify, the net debt to EBITDA, if you add about $20 million of EBITDA and assuming debt levels are the same, does that move you into the low 5s? Is that approximately where you think it would shake out?

Diana M. Laing ***Alexander & Baldwin, Inc. - Interim CFO***

That's right, Sheila. But I do want to point out that in the historic EBITDA numbers, we do have some gains related to land sales. And in the future though, we -- there may not be as many of those. But yes, based on historic numbers, it would drop down into the low 5s.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay, that's great. And then just in the dividend. Moving this kind of income-draining asset on the ag side to productive cash flow, could you just give us your updated thoughts on the 2019 dividend?

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

Yes, so let me reiterate what we've said in the past and then let me tell you what I can -- how I can amend that although it's still very preliminary. So what we've indicated in the past is that a good proxy for our 2019 dividend, as a starting point anyway, would be the 2018 portion of our special distribution from last January. And that was -- on our current share count, that was about $0.57 a share. So we've been suggesting that investors start with that as a proxy for our 2019 dividend. Now of course, we will have the reinvestment of these proceeds and that will increase our REIT taxable income and therefore, our dividend next year. It's too early to project what that impact will be in terms of cents per share for 2 reasons: one is we don't know the cap rate of the assets that we will be buying; and second, well, we don't know the timing of the reinvestments, whether they'll be early in the year or closer to the middle of the year. So for those reasons we don't have an estimate yet of our 2019 dividend. But what we will do is when the board considers the dividend in the first quarter, the first quarter dividend, we will likely start -- initiate a cash dividend in the first quarter at the conservative end of our projections. And then as we add NOI and potentially increase the dividendable amount, we can make adjustments as we go through the year.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay. And just a quick comment and then a question. I do think that investors -- while simplification is always of interest, I think it's good news that you didn't execute on Kukui`ula if the pricing was not acceptable because I think people know it's a irresponsible asset so I think that's good news. But just on Grace, I think that the thing, and correct me if I'm wrong, that has been plaguing it is more the paving. Alexander & Baldwin does have a quarry. Is there a way to kind of separate the paving business and create more of a materials business and just only own the materials in the TRS? Because to me that's like -- it's a higher multiple business, it's less volatile, better margins. Is there a way for you to kind of just hang on to the materials and not the paving?

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

Yes, Sheila, I think the best thing for me to say is just that kind of all of that is on the table right now and that's what we're going to be engaging with an advisor on and that's what I refer to strategic options. It's not just pure -- potential sale of everything, lock, stock and barrel. It's thinking about some of these questions. We have within Grace, we have a few different lines of business. And then outside of Grace, as you know, we have quarries that we have owned as A&B that we're retaining in this transaction. So we have the potential to add those quarries to the mix and think about the best way to approach realizing value from all of these assets. So great question. I don't have an answer yet, but that's the kind of thing that we will be exploring with the help of a third-party advisor.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay. And one last question. The -- you mentioned retaining the sugar mill lands and that zoned for industrial. Is that something that would be a near-term opportunity to perhaps develop industrial on those lands? Or is that like much further out?

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

No, I actually think it could be relatively near term, within the next few years. I think it's a good near-term opportunity and that industrial zoning on those lands which are very central, as you know, and convenient is a real opportunity. We haven't yet put any numbers on it but we have a team evaluating the industrial development opportunity on that land.

Sheila Kathleen McGrath ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay. And I actually just thought of another question. The Wailea entitled lands, I thought you were considering monetizing those. If you could just update us on where that stands?

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

Yes, we are still considering monetizing those lands. And we engaged in a process and we're continuing discussions with potential buyers. I would say that would fall into the category of trying to evaluate the merits of earlier monetization versus holding longer term and what sort of holding costs and what sort of longer-term potential there may be. But I think from the standpoint of simplification, that is definitely one of the project assets on our list for potential monetization and we continue that process.

Operator

(Operator Instructions) And I am not showing any further questions at this time. I would now like to turn the call back over to Kenny Kan for any further remarks.

Kenneth Kan ***Alexander & Baldwin, Inc. - VP, Capital Markets***

Thank you, everyone, for being on the call. If you have any further questions, please free to call me at area code (808) 525-8475. Aloha.

Operator

Ladies and gentlemen, thank you for participating on today's conference. This does conclude today's program, and you may all disconnect. Everyone, have a wonderful day.