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Christy McElroy: Tuesday 2:55 P.M. session at Citi's 2019 Global Property CEO Conference. I'm Christy McElroy with Citi Research and we're pleased to have with us Chris Benjamin, President and CEO of Alexander and Baldwin. This session is for investing clients only. If media or other individuals are on the line, please disconnect now.

Disclosures are available up here and on the Webcast on the Disclosures tab. For those in the room or the Webcast, you can sign on to liveqa.com and enter code Citi 2019 to submit any questions if you do not want to raise your hand.

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

Chris Benjamin: All right, thanks Christy and thank you very much once again for the invitation to the conference, we always enjoy it very much. So let me first introduce my team. I'm here joined by Lance Parker, our Chief Real Estate Officer, Diana Laing who is our interim Chief Financial Officer and Kenny Kan who is our Vice President of Capital Markets. Let me give a little bit of an overview on A&B and then I'll answer your question about three reasons that people should buy our stock.

So, Alexander and Baldwin is a Hawaii-based REIT. We have a portfolio which, just a few years ago, was about 60% on the U.S. mainland but now is 100% in Hawaii. That's a result of a series of 1031 exchanges we did to repatriate the capital back to Hawaii which is the market that we know best. We consider ourselves a local sharp shooter in Hawaii and we've demonstrated the ability to create value in a wide range of asset classes but we are primarily focused on grocery anchored retail.

About two-thirds of our portfolio is grocery anchored retail but we also have a growing industrial footprint and a large ground lease portfolio and so those are a couple of other asset classes that we look at very actively and have had good luck with.

As I said, we are primarily retail but we are grocery anchored, needs based, retail and that's important and Lance will talk a little bit later about why that is important in this day and age and why we like that segment of the retail sector.

We are, by far, the largest player in this asset class in Hawaii with grocery-anchored centers across the four major islands. And because of that, we're really the go-to strip retail landlord for tenants looking to enter the state and we've been able to leverage that position in recent years to help bring new tenants to the state and create other synergies in our portfolio and that's largely because of the growth that we've had in the portfolio over the last few years. We've -- as I've said, we brought all of that capital back from the U.S. mainland to Hawaii. In the process, we've more than tripled the NOI of our Hawaii portfolio and that's given us the ability to realize significant synergies. We've brought all of our property management and asset management in-house as well as most of our leasing activity is now handled in-house. And so in addition to the leasing synergies that we've gotten by the virtue of the size of our portfolio, we've also gotten management synergies and efficiencies. And these have helped produce very strong results in recent years including this most recent year where we had 3.6% same store NOI growth in 2018 and strong growth in the years leading up to that.

While we are primarily a commercial real estate company, we also have other land related businesses that primarily sit within a taxable REIT subsidiary. We have been actively monetizing those assets including sales of several for-sale development products, residential projects primarily, in 2018. But our most notable recent transaction, which really helped simplify our story and our asset mix as well as -- is going to help significantly fuel our NOI growth was the sale of 41,000 acres of land on Maui which was former sugarcane land and not only did we generate $260 million of proceeds from that, which we're going to reinvest and that's going to fuel about a 15% increase, or nearly 15% increase in NOI in the coming year, but it also, again, helps simplify our story.

So, with that, let me get to the three reasons to buy the stock as you requested Christy. First of all, I think it's absolutely the high quality of our portfolio in Hawaii and the very strong prospects we have for expanding it. Our retail annualized base rent, or ABR of $31.00 is 50% higher than our strip center peers while our ABR in the industrial part of our portfolio of $14.00 is more than twice our industrial peers in the mainland. These are a result of the really strong Hawaii economy and the robust market as well as supply constraints in the market. So it's a very high quality portfolio and we see a lot of headroom for growing in both of these asset classes.

We are about 20% of the grocery-anchored market in Hawaii, by far the largest player, but we think that there's plenty of room for additional growth and then in industrial, where we've got a growing portfolio, we're probably only about 1% of the market. So there's, again, significant headroom for growth.

Second reason I would point to is our very strong track record in recent years of executing what we say we're going to do, most notably our strategic transformation going from a geographically and operationally diverse company to one that is now almost entirely commercial real estate and Hawaii focused. That has included the sale of 25 mainland assets and reinvestment of the proceeds in Hawaii. Again, I said earlier, we've more than tripled our Hawaii NOI and that's been funded almost entirely by internally generated sources of capital. In the process, we've also doubled our commercial real estate asset base.

We've converted to a REIT as of 2017. We've brought, as I've said before, brought our property in asset management and leasing in-house and then, again, the recent sale of the ag land. So, all of these are a demonstration of our success in executing our strategy.

And then the third reason is we're rapidly approaching the pure commercial real estate model that we've been pursuing in Hawaii. We do have a couple of non-CRE pieces left but we're getting closer to monetizing those and we do have several levers that we can pull to continue growing our commercial real estate portfolio. So, as a result of all of that, I believe our growth and simplification efforts will drive meaningful value growth and that makes this a good time to get into the stock.

Christy McElroy: Great. Well, I'll kick it off with the first question we're asking in all of the sessions, what is the biggest potential disruption to your business and what are you doing to take advantage of it or mitigate the risk of it?

Chris Benjamin: Yeah, so as an owner of primarily retail assets which make up, as I said, about two-thirds of our portfolio, I think we have to talk about the Internet as an obvious disruption. But I also want to talk about, and ask Lance to talk about, why we feel our portfolio has largely been insulted to date, from the pressures of Internet sales and why we're well positioned to withstand and even benefit from increases in Internet sales penetration. So, I'm going to ask Lance to elaborate on both the unique characteristics of our portfolio and our strategy going forward as it relates to the Internet.

Lance Parker: Thank you Chris. As Chris mentioned, two-thirds of our NOI is retail focused within that, these are primarily grocery anchored or drug-anchored centers. So really need-based locations which we feel are more Internet resistant. We've also been increasing, in some of our strip spaces and junior anchors, exposure to food and fitness, again, thinking more Internet resistant. So that talks just about the makeup of our portfolio. We also feel relatively insulated, at least historically in Hawaii, Hawaii and Alaska have the lowest Internet sales penetration of any of the states; primarily due to logistical issues. So we're the most isolated islands in, or geographically most isolated place in the world which presents some challenges.

We measure the ability to get Amazon Prime shipments in days, not hours, like other markets and so that's helped to have, again, less Internet penetration in the market and in our centers specifically. Now, we are starting to see some of those dynamics change. So Amazon does not have a fulfillment center in Hawaii but they do have a dedicated cargo hub with Prime Air. So that has helped them to lessen the delivery time for certain online sales items that are purchased, but again, they're still measured in days for delivery as opposed to hours in other markets.

We're also seeing, as some of the non-Amazon retailers increase their buy online and pick up in store format, actually changing the way that they're using their logistical warehouses. Typically they have not had those types of facilities in Hawaii. Most of the retailers in our marketplace have used just-in-time shipping as well as larger store formats with back-of-house really for their warehouse needs. But as some of these retailers are, again, better positioning themselves to be competitive with Amazon, users like Target, like Best Buy, we've seen entry into the industrial sector in our market in the last year. Target's recently leased 150,000 square foot distribution center in our marketplace, Best Buy recently leased a 50,000 square foot distribution center in our marketplace and as Chris said, we think that actually plays well for our industrial exposure in the market. It is an asset class that we have.

We recently purchased 150,000 square foot Class A industrial building in December. Class A industrial is sort of far and few between in our marketplace, so this new exposure as well as some of the other investments we're looking to place I think positions us very well to take advantage of some of these industrial needs as this trend continues.

Christy McElroy: Lance, I wanted to follow-up on your comment about Amazon and Prime Air. They just announced that they will be expanding their presence at the Honolulu Airport and that they are, you know, pretty aggressively trying to work towards that two-day delivery timeframe. How do you think that this could, you know, you talked about the disruption but how could this potentially change that dynamic in terms of the Internet penetration that is in Hawaii right now that is still relatively low? Do you think that that is a huge kind of turning point in changing that?

Lance Parker: It will definitely shorten the delivery time and we think that will lead to sort of increased Internet sales penetration; both in terms of Amazon but as well as the other retailers that I mentioned as they go to more availability of product in state. We think that will probably increase Internet sales penetration but we feel good about both our exposure to the industrial as well as the fact that a lot of these other retailers are using their brick and mortar locations as points of distribution for goods.

Christy McElroy: And you know, Chris, you had talked about the $260 million of proceeds from the ag land sale. Maybe you can give a little bit more color on the progress around reinvestment of those proceeds back into commercial property? You talked about the expectation of 15% NOI growth and I think some of that was the recent industrial purchases that you made but maybe just progress on that reinvestment in timeframe there?

Chris Benjamin: Yeah, you know, as context, in Hawaii we typically try not to lead with a disposition and then try to place the proceeds. We usually try to identify what we want to buy first and then look to monetize an asset. But, in this case, because of the large scale of this ag land transaction, we were really forced to lead with the sale and then find assets to purchase. We did as much of that before we announced the sale as possible so that sellers wouldn't know that we were in the market. And we did get a lot of assets either under LOI or, in some cases, under contract before we even closed the deal. But nonetheless, we had a relatively short timeframe, 45 days, to identify -- replacements for $258 million of land proceeds.

And we can identify, as you know, twice that amount under 1031 rules. So, we had 45 days to identify essentially $516 million worth of asset. We were fortunate, by the end of that 45 days to have either closed, in one case, or contracted for 77% of the proceeds, entirely within our preferred asset classes. So, grocery-anchored, industrial and ground leases. The other 23% of the proceeds that were not yet committed at the ID date, we were able to identify over $300 million of assets to fill that part of the bucket. So we have significant redundancy and a lot of fallbacks in our ID for filling out the 258. So we feel very good about where we are. We have identified the assets that we'd like to execute one, even the ones that are not under contract or under LOI and we're working towards PSA's on those.

So we not only feel very good about the fact that we're going to get the reinvestments done, but that they're going to be in our preferred asset classes and at attractive pricing. So the team has done a tremendous job and it's going to be a great boost to our portfolio quality as well as our portfolio NOI.

Christy McElroy: And just thinking about that from an FFO accretion perspective, you know, land obviously -- weren't earning anything or much, you know, in terms of the assets that you're buying, is all of that revenue generating or is some of that land for future development as well?

Chris Benjamin: It is all revenue generating at least what we've ID'd. When we closed on the transaction we announced that we might look to do some acquisitions of either developable -- well, yes, developable land and the mix that we've ended up with unless I'm mistaken, Lance, is entirely existing income generating assets. Now, I will point out that in some cases it's ground leases underneath commercial properties but they're all income generating.

Christy McElroy: And you know, we talked about the industrial component of it; in the context of your growth plans, maybe you can talk a little bit about your appetite for industrial versus retail? And you talked a little bit about it during the opening remarks but I ask it in the context of, you know, we investors tend to prefer one property type, right, and there is sometimes a discount or a cost to being diversified. So how do you think about, you know, the mix of retail versus industrial, your appetite to grow that side of the business versus the investor bases preference for one property there?

Chris Benjamin: Yeah, so I think that the important distinction, the important thing to say is that we are not going to be widely diversified in terms of asset type. We are going to be concentrated in one geography, Hawaii, and we are going to be primarily concentrated in two asset classes, which would be grocery anchored retail and industrial. We also like ground leases which can be under any type of asset but they've got very distinct characteristics and we have found them to be very highly value creating over time.

Within -- so I think it is important to say that we're not just out there looking for any asset, we're focused in two asset classes that we think have a number of similar characteristics in Hawaii and so as far as relative appetite between retail and industrial, we don't have a strong preference between those asset classes, we will be somewhat opportunistic. There will come a time, as I said before, we're about 20% of the market in terms of grocery-anchored retail. There will come a time maybe at 30% of the market that we sort of say, okay, we've kind of satiated our appetite there. We've got good geographic coverage. At that point, we might shift primarily to industrial but I would say in the meantime we'll be somewhat agnostic and look for the best opportunities we can find and I'd invite Lance to elaborate on that if you'd like?

Lance Parker: No, I would just echo everything you said Chris and I guess I would add, we feel very strongly about the fundamentals in both of those asset classes. Our portion of retail with grocery-anchored strip, Chris referenced ABR of $30.00 per square foot. That switch is extremely high relative to our peer set. Our grocers traditionally do very well in the Islands. Our average sales for our grocers are about $784.00 per square foot on an annual basis. On the industrial side, you know, we've historically had about a 2% vacancy factor in the marketplace. We're trading at just over 2% right now. So high barriers to entry, limited supply and, again, strong ABR. So two strong asset classes that we feel very good about.

Chris Benjamin: A couple of other things that we like about these asset classes are that neither is directly dependent on tourism. Obviously, everything in Hawaii benefits from tourism but neither of these asset classes, well we have one retail asset that has some resort dependence. It's not entirely resort dependent. For the most part, it's local community driven and so it doesn't depend as much on tourism. Similarly, with the industrial assets we have which are kind of flex-space and almost quasi retail in nature. They also aren't directly dependent on tourism. So we like that. The other thing that we like is that the asset ownership in these two asset classes is fairly fragmented which creates good opp -- good acquisition opportunities for us over time.

Christy McElroy: You announced the strategic review of Grace Pacific late last year. Maybe you could provide some additional color on why A&B bought this business to begin with? And why owning that business is no longer a strategic positive for you and are you currently marketing it right now?

Chris Benjamin: Yeah, so Grace Pacific is a vertically integrated materials and construction business. It's essentially a paving business but it produces its own raw materials including aggregate from quarries that it owns. The business was purchased largely to provide cash flow to help support some businesses that we're no longer in; primarily the cyclical and somewhat volatile agricultural operations that we had at the time. This is back in 2013. We have since gotten out of these agricultural operations and so the need for the cash flow that Grace provided at the time is less. As well as the reduction in our development for sale activity which is also somewhat lumpy where there would be years where we were investing significant amounts of capital and other years where we were monetizing.

So the Grace acquisition was largely to support the cash needs of those businesses. Now that we've migrated out of businesses for the most part and we are more of a pure commercial real estate company, we think that the need for the business is less. And now that we're a REIT, we see that the difficulty that investors have warming up to our story with a paving company is greater. And it's -- you know, there's no doubt that we would be an easier story to understand without that business and so we've identified a desire to sell it. Now, we're not in fire sale mode, we're not going to try to unload it immediately. We're -- we have initiated a strategic review, as you indicated, and that is working with an advisor to decide on the best, both approach, and timing for a potential marketing process and I would expect that that review would, could, be completed over the next six months or so and then we'd be in a decision to decide whether we take it to market immediately or whether we wait a while to address some of the performance issues in the business before we take it to market.

Christy McElroy: Who is a buyer for something like this? And I guess at this point, you can't really give us a sense for value that would sort of happen after the strategic review process?

Chris Benjamin: That -- so, to your second point, that's correct. The first point is, it could be any number of large natural materials companies, construction companies. We would certainly expect interest from large players on the mainland. There could potentially be local interest but most likely we would be looking to a mainland or even an international buyer of an asset like this.

Christy McElroy: We had a question come up on Veracast. Can you compare and contrast the existing land bank with the sugarcane lands that was just sold? Is that a good indicator of value or was that a unique sale?

Chris Benjamin: Yeah, just as a little context for that, the parcel that we sold was largely the former sugarcane lands on Maui which were mostly contiguous acreage and they ideally operate as a whole because water supply infrastructure to this plantation ideally calls for single -- not necessarily single crop, but coordination and so that's why we were able to -- we were pleased that we were able to find an entity that has a good track record in terms of farming lands on this kind of a scale.

Now, we didn't necessarily set out to sell the lands, we were open to a lease arrangement, a variety of different approaches to generate value from the lands but ultimately it turned out that anybody that was going to farm the lands really needed to own them in order to invest the kind of capital necessary. Contrast that to what we have left, what we have left is a little bit more fragmented. We have a variety of different ag pieces on Maui and on Kauai and for the most part, well I'm not sure I should say for the most part, from an acreage standpoint, but on an overall basis, what we have left is actually modestly profitable. So, whereas the land that we sold had carrying costs of about $8 million a year that we're able to no longer incur. In addition to the $12 million or so of NOI that will generate, so essentially a $20 million swing. The balance of the lands and what we have left in our diversified agriculture segment or operations, is actually profitable and so while we may look to lease additional lands and there could be future opportunities to sell them in the near-term anyway, they're actually generating income and so there's not as much urgency to find someone to repurpose the lands because a lot of them are already in active agricultural use including the largest coffee plantation in the United States is on 3000 acres of our Kauai land. We have a couple of hydroelectric plants, we have several solar farms, so we've done a good job of deploying some of these other ag lands into profitable uses.

Christy McElroy: You've also initiative sort of a process to look at your org structure in light of this sort of overall simplification plan. How should we think about that in terms of timing and potential reduction in G&A? How much G&A is associated with the Grace business?

Chris Benjamin: So, the process that we're undertaking is really to say, okay, look, we've changed a lot as a company, we are no longer in as many diversified businesses as we used to. We essentially were a holding company for a long period of time. When we are done with this transformation, and it's important to note that we're not done yet, but we're getting much closer, when we are done with the transformation we really need to look like a streamline REIT and we have to figure out exactly what that means in terms of structure and staffing levels and consultants and everything else.

So, we don't have a timeline on either when we will get to that endgame or how we will restructure or recast our organization, but we do have planned this year a strategic review of our organization to figure out what that might look like, what milestones we have to hit before we can reduce some of the G&A.

To your point, some of the G&A will be naturally reduced as we sell off businesses. There's roughly $20 million of G&A at Grace and so that would, of course, go when the business goes. But the other part of that is, what sorts of corporate support is there currently for the Grace business that also could be adjusted. So those are some of the questions that we'll be asking but we certainly do recognize that we've got to look different as a company once our business mix is completely evolved.

Christy McElroy: One of the issues that NAREIT's been talking about a bit, you know, for a while the State of Hawaii has been targeting REIT taxation as a potential revenue source. How do you see that playing out and how has A&B been involved in combating that effort?

Chris Benjamin: Yeah, so there have been efforts for several years, actually, to impose different forms of taxes on REIT's. As everybody knows, REIT's are taxed at the individual shareholder level as a pass-through entity but the legislature has had a few different initiatives to look at taxing REIT's at the entity level. There were 3400-some bills introduced to the legislature this year. A lot of them are focused on various forms of revenue increases for the state. It's -- we're only a little over a third of the way through the legislative process and so it's far too early to predict how it will go but I will say that I think we're doing a great job as an industry of getting some key messages out there about the value of REIT's to Hawaii, the level of investment that has been made in recent years by REIT's by the fact that income taxes are a relatively small portion of the taxes that REIT's pay in Hawaii. There's general excise tax and of course property tax and conveyance tax and other things and then just the economic -- the level of economic activity that they support. So, you know, certainly my hope is that the legislature will recognize the broader benefits of the REIT's and not look to raise a little bit of revenue and end up, you know, impacting the state more significantly by reducing REIT investment in Hawaii which I think has been a tremendously positive thing for the state. Not only in the assets that have been built in Hawaii in recent years but also in the support that the REIT's give the local communities.

Christy McElroy: Any questions from the audience? Go ahead.

Unidentified Audience Member: (Inaudible). Would you say that's indicative for the remainder of the portfolio for the ground leases at some point? I recognize that some of them are several years away from coming due but --

Lance Parker: Yeah, it's -- you know, we publish in our supplement, our top 20 ground leases and we try to give some insight into when the next triggering event might be; whether it's a fair market reset or whether it's a reversion. It's a little difficult to use that example in 2018 which was a 43% increase in same-store NOI as a result of a fair market reset to apply across the entire ground lease portfolio but what I can say is that whether it's fair market resets or in other examples where we've been able to recapture the improvements and then deploy capital for repositioning of the assets; it is something that has the potential to provide outsized returns. A good example is our Lau Hala Shops, it was an old Macy's box that we got back. We're receiving about $300,000 annually in NOI. We deployed about $23 million in capital at about an 11%, slightly over 11%, return on cost to demise the space to release it. We're now 100% occupied and we'll start going economically this year. So that will be a big driver to some of the NOI growth that Chris referenced.

Christy McElroy: Anyone else? Just, you know, after successful redevelopment of the box you got back at Kailua town, maybe you can talk a little bit about sort of the longer-term redevelopment and densification potential for that collection of retail that you own there and what that site could look like in the next five plus years?

Chris Benjamin: Go ahead -- yeah, first of all, we are sort of sequentially focusing on various assets to reposition and redevelop. Our recent repositioning was at Pearl Highlands Shopping Center which has been very successful and helped us get rents -- I'm sorry, helped us get occupancy up to 98.1%, as soon as Guitar Center occupies later this year. Then Lau Hala Shops was a terrific transformation of an old Macy's box and our next focus is also in Kailua but not right in the central business district. It's the Aikahi Park Shopping Center and we think that we've got an opportunity to earn similar sorts of returns on cost by repositioning that asset.

The central Kailua redevelopment is a little bit further down the road. We're going to focus on Aikahi for right now but we are in the process of engaging with the community, looking at options to reposition some assets in the town. A central question there is what we will do with the bowling alley there. There's a wide range of possibilities; one is keeping it as is with -- as a full-on bowling alley. There may be some opportunities to reposition it, preserve some bowling component but also use some of the space in other ways and then there might be ways to repurpose the site for other uses. But we're very much committed to engaging with the community and trying to make sure that what we do is right for the long-term of the community because we think that will be right for the long-term of our investment there.

And then there are other opportunities in our portfolio in Manoa and elsewhere for repositioning. So repositioning in general is going to be, I think, a significant and steady opportunity for us because a lot of our assets are older and I think we can continue to generate good returns for the company but also really benefit the community through these repositioning and bring, you know, high quality uses to some of these facilities that are a little bit tired right now.

Christy McElroy: And the bowling alley lease, you get that back this year or next year?

Chris Benjamin: It's essentially a one-year -- year-to-year.

Lance Parker: Correct. So, beginning of 2020.

Chris Benjamin: And we're committed during this year to make sure that we work through sort of conceptualizing with the community what the potential future use would be.

Christy McElroy: And then just in terms of Maui, you recently sold the Wailea land. You bought Pu’unene while in lease-up and then you just commenced construction on, and I'm just going to butcher this, Ho’okele.

Chris Benjamin: That's pretty good.

Christy McElroy: Sort of -- how do you think about your growth strategy in Maui and maybe in under a minute and 15 seconds?

Chris Benjamin: Okay, Maui is a very important island to us. It always has been and it will continue to be. Maui is, you know, the second biggest island in terms of population in Hawaii. It's where our company started. So we have had some evaluation. We've obviously gotten out of the sugar business and sold that land but we sold it to a company that we felt would really be able to steward it going forward and now we're looking at additional investments on Maui, not only the ground up development of Ho'okele, potential future development of a commercial parcel within Wailea and some of the assets that we've identified for potential 1031 exchange are also on Maui. So Maui will continue to be very important to us. And now that we've got a pretty good balance of assets across the Hawaiian Islands, I think we'll continue to grow on each of the islands going forward.

Christy McElroy: Great. So we'll do the rapid fire questions. So I'm just going to put you guys into the strip center sector just for -- you know, we'll just forget about industrial for now, for the ease of these questions. So, will the U.S. strip center sector have more or fewer public companies a year from now?

Lance Parker: Yes. That was a joke. I don't think I have a strong opinion. If I have to pick one, I'll say fewer.

Christy McElroy: You can't mess with me like that, it's like 3:00 on a Tuesday. What will same store NOI growth be for the strip center sector overall in 2020?

Chris Benjamin: 2%.

Christy McElroy: What will the ten-year treasury yield be one year from today? Today it's 275.

Chris Benjamin: 3%.

Christy McElroy: And in what year will the U.S. enter a recession?

Chris Benjamin: I am particularly bad at predicting these kinds of things so I don't know what good this is, but if I have to pick a number, while I'm not pessimistic at all, I will say 2021 just to give you a number.

Christy McElroy: Great, thank you so much. Appreciate it.

Chris Benjamin: Thank you.