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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Alexander & Baldwin's First Quarter 2020 Earnings Conference Call. (Operator Instructions)

Please be advised today's conference call is being recorded. (Operator Instructions)

I will now hand the conference over to your speaker today, Mr. Steve Swett, Investor Relations. Sir, please go ahead.

Stephen C. Swett - *ICR, LLC - MD*

Thank you. Aloha, and welcome to our call to discuss Alexander & Baldwin's First Quarter 2020 Earnings.

With me today are A&B's President and CEO, Chris Benjamin; and Brett Brown, CFO. We're also joined by Lance Parker, A&B's Chief Real Estate Officer; and Clayton Chun, Chief Accounting Officer, who are available to participate in the Q&A portion of this 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 as well as the rapidly changing challenges with, and the company's plans and responses to the novel coronavirus COVID-19 pandemic and related economic disruptions.

Such forward-looking statements speak only as of the date 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 timing of certain events to differ materially from those expressed in or implied by our 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, business associated with the COVID-19 and its impacts on the company's business, results of operations, liquidity and financial condition, evaluation of alternatives by the company related to its Materials & Construction business and by the company's joint venture related to the development of Kukui'ula, generally discussed in the company's most recent Form 10-K, Form 10-Q and other filings with the SEC.

The information in this release should be evaluated in light of these important risks. 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 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 and operational update. He will then turn the presentation over to Brett who will discuss financial matters. Chris will return for some closing remarks, and then we will open it up for your questions.

With that, let me turn it over to Chris.

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

Thanks, Steve, and good afternoon to our listeners. Today, I will provide an overview of our first quarter results and activity and then discuss the impact we are seeing from COVID-19 and the actions we are taking in response.

Brett will then review our financial and operational results in more detail, and summarize our balance sheet and liquidity position. Then we will open the call to your questions.

Let me begin by saying, we hope everyone on the call is well, as are your families. The COVID-19 pandemic and its associated impacts have been felt by many, including our communities here in Hawaii.

We are fortunate that the health impacts of the coronavirus have been relatively minimal in Hawaii, but the personal toll of the pandemic and its associated closures is no less significant than it is elsewhere.

Our first priority has been the health and safety of our employees, our tenants in the entire extended A&B family.

With all the moving parts associated with COVID-19, I'd like to summarize the 5 key takeaways, I think, are most critical to understanding A&B's position right now.

First, while there are some very positive signs regarding how Hawaii and A&B may fare relative to other markets and our REIT peers, it is far too early to make forecast of the timing of a return to normalcy and the performance of our tenants.

The positive signs include the truly remarkable containment of COVID-19 in Hawaii and the fact that our commercial portfolio is relatively needs-based and essential here to a local resident population.

But Hawaii's success in protecting public health comes from our ability to manage the flow of visitors into the state and the recovery of our economy and the spending ability of local residents will depend on safely restarting that flow.

It's unclear how and when that will happen. We have great confidence in our local leaders and are optimistic, but not taking anything for granted.

Second, I've never been more proud of the people of A&B. Most of our employees have been working remotely since March 12, and I want to thank them for their dedication and hard work to keep all our properties and businesses operational through this difficult period.

Our team will manage through this as well as any could, and I've been overwhelmed by their tenacity as they manage the centers and work with our tenants or close the books on our first quarter entirely virtually.

We'll continue to perform safely in many jobs across our company that are essential to keeping Hawaii running, including construction, energy generation and equipment maintenance. Our team is doing a phenomenal job.

Third, we're guided daily by our values and our objective to be partners for Hawaii. That's not an easy thing to define in a time like this, and we can't single-handedly solve every problem. But what we can do as a locally managed, locally-based company is work closely with our tenants to help them remain open, when possible, provide marketing support to those who do remain open, and help others pursue available resources to offset the financial losses they are experiencing.

Of course, we are offering a leap where we can, but also asking all our tenants to recognize that our mutual success is critical to long-term survival. And so we must, together, minimize and share the pain.

We also are continuing to invest in our communities with charitable causes to keep them strong through these unprecedented times and by continuing an important redevelopment work that supports local employment, while advancing NOI growth initiatives.

Fourth, while we must moderate our expectations for asset monetization during the pandemic, we are encouraged that many potential buyers of both land and operating assets have remained engaged.

I believe this is a reflection of the essential and the sensitive nature of our assets. Even in good times, we refrained from forecasting the sales of land assets and operating businesses, but I am more than hopeful that we can maintain momentum and the simplification of our business on which we've made so much progress in recent years.

Finally, we are going to be prudent in the management of our financial position and ensure that we are ready for whatever comes. We're going to plan for and pursue the best outcomes, but we're going to anticipate and prepare for the worst.

At this early stage of the pandemic, caution is warranted, and you'll see that reflected in our actions, including our decision to suspend our dividend until we have greater visibility.

That does not reflect any change in our policy of paying out 100% of our REIT taxable income, but it does acknowledge the unpredictability of our environment.

Turning now to our first quarter Commercial Real Estate performance, which was not significantly impacted by COVID-19-related factors. We had strong results that were largely in line with expectations.

Total CRE revenue increased by 17.9% over the prior year, and cash NOI increased by 19.4% over the same period, primarily driven by our acquisitions in the first half of 2019.

We leased approximately 200,000 square feet of GLA in the quarter and for comparable leases, achieved an average leasing spread of 10.6%.

As of March 31, 2020, our Commercial Real Estate portfolio was 94.7% occupied, which is 180 basis points higher than the same quarter of the prior year.

Results going forward clearly will not be this strong, but we are fortunate to have entered the pandemic with solid performance and high occupancy.

While capital preservation is a priority at this time, we will be continuing with our value-add repositioning program at Aikahi Park Shopping Center.

Modest COVID-19-related timing impacts are not expected to delay overall project completion. We've completed our landlord work with the demolition of the theater space, and we will provide updates as we progress.

Additionally, our asset monetization program continues as we seek to both simplify our company and improve our liquidity. We closed on sales totaling 1.8 acres at our Maui Business Park and 1 unit at Kukui'ula, during the quarter, and we have additional potential sales in escrow. Buyer interest thus far appears fairly resilient at both projects.

Finally, regarding Grace Pacific and our Materials & Construction business, we continue our efforts to stabilize operations. Weather, project delays, and COVID-19 set us back a bit, and our first quarter results reflect that. But we were encouraged by progress in reducing costs and winning new business at Grace, including large paving projects on Oahu and Kauai.

The essential nature of this business should help increase volumes as the year goes on. The volumes have been challenged so far in the second quarter, as we work with government agencies to initiate work on projects we've won, but for which we are awaiting contracts.

We remain focused on the eventual sale of this asset while acknowledging that the current economic environment may impact timing.

Now I'd like to take a few moments to discuss the COVID-19 impact more specifically and how we believe we are positioned moving forward.

In early March, as the global spread of the virus accelerated, Hawaii started to see a downward shift in tourism and reduced consumer activity.

Effective March 25, the Governor of Hawaii officially imposed a mandatory stay-at-home order, closing nonessential businesses and implementing social distancing measures.

As we sit here on the last day of April, it seems that so far, Hawaii has been spared from the worst, and we're hopeful that we can see a gradual return of normal activities and movement within Hawaii beginning in May.

What remains uncertain is when tourists will be free to come back to the state, as we often point out, only a couple of our centers rely significantly on tourist traffic, but tourism does drive the broader health of our economy, and it's important to many of our tenants.

We are certainly supportive of protecting the health and safety of our communities, but are hopeful that Hawaii's remarkably good progress in flattening the curve will facilitate initial steps to open up our economy during May.

With respect to our portfolio, all our properties remain open with elevated safety measures in place, supporting the wide range of tenants that have been deemed essential.

Our retail properties include grocery stores, pharmacies, hardware stores, professional services, take-out food and other needs-based retailers, who continue to serve our local communities.

Further, our light industrial assets and ground leases, which comprised 16% and 15% of our ABR, respectively, provide additional stability. And our Materials & Construction business and renewable energy assets are also considered to be essential.

As a result, we believe our business model is relatively defensive in the midst of such uncertainty.

At this time, we can confirm we received 62% of April rents, with 38% of tenants requesting some form of rent relief. I believe rent receipts might have been higher had we not chosen to work proactively with our tenants to help protect their long-term health and cash flows, which we believe will provide A&B with greater stability over time. We are working with each impacted tenant on a case-by-case basis.

Finally, given the unpredictability of these times, we are being conservative in the management of our business and balance sheet.

We've implemented a number of expense and capital reductions and are regularly modeling potential financial scenarios based on the latest economic and tenant data we have.

As you can imagine, however, the range of potential outcomes for our 2020 earnings is wide. For that reason, and as I mentioned earlier, our Board has decided to suspend our dividend in anticipation of reduced, but difficult to predict, REIT taxable income.

We intend to continue paying out 100% of our REIT taxable income, we feel it's prudent to re-evaluate our outlook as the year progresses and update our dividend policy when we have greater visibility.

With that, I will now turn the call over to Brett, who will discuss our operational and financial results in more detail.

Brett A. Brown - *Alexander & Baldwin, Inc. - Executive VP & CFO*

Thanks, Chris, and good afternoon, everyone. Let me begin with our financial results. For the first quarter, we recorded net income of $6.2 million or $0.09 per share compared to $9 million or $0.12 per share in the same quarter of 2019.

The reduced net income is largely due to decreased revenue from Land Operations and our Materials & Construction segment, which was partially offset by growth in our CRE segment.

This quarter, we are also introducing FFO and Core FFO metrics, as we work to augment the disclosure for our largest operating segment, Commercial Real Estate.

This should also provide better comparability of our results with peers. Although I'll remind you that the company continues to own and operate other diverse businesses.

For the first quarter of 2020, we're reporting funds from operations of $15.9 million or $0.22 per share compared to $16.4 million or $0.23 per share, respectively, for the same quarter of the prior year.

Core FFO was $18.3 million or $0.25 per share compared to $12.5 million or $0.17 per share, respectively, in the same quarter of 2019.

The increase in Core FFO was driven by our new acquisitions we completed in the first half of 2019 as well as growth in the same-store portfolio.

As a note, definition and a full reconciliation of non-GAAP measures can be found in the supplemental posted to our website.

With regard to performance within the Commercial Real Estate segment, we are pleased to report that revenues were up 17.9% or $6.6 million over the prior year quarter.

Total portfolio cash NOI increased $4.7 million or 19.4% compared to the same period last year. This year-over-year growth was driven primarily by new acquisitions as part of the commercial real estate investments we have made in the last 12 months, as well as growth in the same-store portfolio.

Same-store cash NOI for the first quarter increased by $900,000 or 3.7% to $24.5 million.

Moving on to our Land Operations segment. This business unit produced revenue of $11.5 million during the first quarter of 2020 and generated EBITDA of $5.4 million in the quarter, as a result of sales and earnings from joint venture-related -- from joint ventures related to land and development-for-sale projects.

During the quarter, we completed sales totaling 1.8 acres of land at Maui Business Park and 1 unit at Kukui'ula.

With respect to our Materials & Construction segment, we did feel some impact in the first quarter from COVID-19, but we continue to believe our work to reduce costs and improve operations will bear fruit this year.

First quarter adjusted EBITDA was negative $400,000, which compares to negative $1.4 million in the same quarter of the prior year.

Additionally, we continue to work to right-size our expense structure. Operating costs and expenses decreased by 38.8% from the prior year quarter, due to significantly lower operating expenses in the Land Operations and Materials & Construction segments.

Selling and G&A expenses decreased 11% to $13.8 million in the first quarter of 2020, compared to $15.5 million in the first quarter of 2019, due primarily to cost reduction and operational improvement initiatives in the Materials & Construction segment.

Now I'd like to take a few moments to update you on our balance sheet and liquidity metrics. We believe that the work we have done over the past several years to stabilize our cash flow with CRE income and more recently to reduce leverage, has strengthened our position as we enter this period of uncertainty.

As well with regard to debt maturities, we had just one loan maturing in 2020, a $16.2 million unsecured note, which we repaid in March and have only 2 small mortgage loans maturing in 2021, totaling $14.6 million .

During the first quarter, as a precautionary measure, we proactively drew $120 million on our credit facility to provide additional financial flexibility.

At March 31, 2020, total debt outstanding was $819.6 million, and we had total liquidity of $348.9 million, including $131.6 million of cash and $217.3 million of remaining capacity on the credit facility.

At quarter end, net debt to trailing 12-months consolidated adjusted EBITDA was 7.5x, and our debt to total capitalization stood at 50%.

Finally, with respect to our dividend, the Board of Directors has temporarily suspended quarterly dividend distributions given the uncertainty of the current economic environment. We will continue to evaluate dividend declarations each quarter with the intention of paying 100% of REIT's taxable income and will maintain compliance with REIT taxable income distribution requirements for the full year of 2020.

Also based on uncertainty related to COVID-19 and its unprecedented economic and social impact, we are withdrawing guidance at this time.

As Chris mentioned, we have done considerable amount of time assessing the current environment, potential scenarios and ongoing risks and believe we are acting prudently amidst the current uncertainty.

We will continue to monitor the situation in the future and provide updates as appropriate.

With that, I'll turn the call back to Chris for closing remarks.

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

Thank you, Brett. Though Hawaii has so far been spared the harshest impacts of the COVID-19 pandemic, we are experiencing economic and social dislocations that are unprecedented and could be prolonged.

We expect a gradual return to a more normal state, starting in May, enabling retailers to begin reopening, but it will be phased, and there's no certainty regarding how long it will take.

In the meantime, here at A&B, we remain focused on being Partners for Hawaii, and this crisis has given us another opportunity to live out our values. The company will commit 20% of its 2020 charitable budget to COVID-19-related community initiatives.

We are working with trusted nonprofit partners to understand immediate and long-term needs, and we'll allocate funding the programs that feed families, provide emergency rental assistance and position our communities for a full recovery.

We remain committed to the communities in which we operate, and we are confident that over time, we will all emerge from this pandemic stronger than ever.

As I said in my opening remarks, I believe we are well-positioned as a state and as a company, but this is no time for bold predictions of rapid recovery.

We will continue to be focused and diligent as we manage through an unpredictable time.

With that, we will now open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Sheila McGrath with Evercore.

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

Chris, I was wondering if you could give us a little bit more insight on the April collections. Are you in discussions -- are most of the discussions regarding deferrals and then pay back over time? And then I'm just very surprised to see the industrial and ground lease collections wouldn't be higher, given those sectors.

So if you could give us a little more insight there as well.

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

Sure, Sheila. If you don't mind, I'll have Lance address those questions.

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

Sheila, good afternoon. So I'd say a couple of things about our collections for April. First, despite the -- maybe the surprise, we do like the mix of our portfolio with the different asset classes. We do think that, that helps with diversification and will allow our numbers to remain up as we work our way through things.

That being said, we do have a couple of our industrial users that are tied to really retail operations that have been deemed nonessential. So that's one thing that drove maybe a lower collection for that asset class.

And then on the ground lease side, there's a couple of ground leases that are tied to owner users that are similarly -- that were deemed nonessential.

But a few other comments, I guess, I would make. One, on the retail side, as Chris indicated in his remarks, we made a strategic decision to be proactive with a subset of our tenants.

We really do want to -- despite all the disruption we're currently seeing, really want to take the long-term perspective here and realize that value and success is going to be measured and how quickly we can get our tenants open. So that once they're physically allowed to do so, they're financially able to do so.

And so we went after what we viewed as our most at-risk tenants, which really are local, nonessential, retailers as well as restaurants and proactively offered deferral for the month of April.

So if not for that, we would have expected to see slightly higher recoveries. And then, I guess, one last point that I would make, I mean, as we sit here on the 30th of the month, I do still expect collections to occur for the month of April. So I've had personal conversations with tenants that I do expect to pay. While we do have tenants that really are struggling, we have others that are just being cautious, but have the ability to pay, and we do expect them to do so.

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

Okay. Great. And then, Chris, on Grace Pacific, in your press release, you said that this year, it might be possible to swing to profitability, which is very positive news in my mind.

Can you just talk about factors that give you confidence that, that division can swing to positive EBITDA this year?

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

Sure. Let me talk about the positive things that I'm seeing in the business, Sheila. I think that in light of the environment that we're in right now and the unpredictability of whether there could be a second surge and all that sort of thing, we have to qualify any forward-looking statements in that respect.

So I'll stop short of predicting profitability, but I'd be happy to talk about some of the positive things I'm seeing in the business.

First thing is that we've reduced our cost structure quite a bit from where it was a year ago, and that's both on the G&A side as well as the operating side.

And I think that's an important starting point just to lower the revenue and gross margin threshold that we need to hit in order to achieve profitability.

Second, we have increased our backlog and increased the rate at which we are being successful in bidding jobs.

Some of that is just a result of the competitive environment, but I think a lot of it is a result of just a very strong, methodical and thoughtful approach to how we're bidding jobs, and we're seeing better results there.

And I'm confident that we're bidding these jobs at levels where we can be profitable on them, and we're having more success as well.

So I feel good about that. Some of the mitigating factors and the things that are impacting us year-to-date and still in April are that it has been tough to get some of those jobs that we've won, contracted and got -- getting the work going.

And some of that is certainly COVID-related with government agencies bogged down, working remotely and that sort of thing.

So what we're focused on right now and we're working proactively with the government agencies, both at the county level and the state level, is taking some of these maintenance contracts that we have, because a lot of work is specific to a defined piece of paving, for example, a defined road, a certain area.

But a lot of the contracts that we have are broader maintenance contracts where the contract can be used to do paving in a variety of areas or on a number of different roads.

So what we're trying to do is take some of these maintenance contracts that we already have in place and see if we can work with the government agencies to identify paving work that can be done under those contracts, while the roads are not very busy right now, it's a perfect time to be doing paving work.

So I would have liked to have gotten more of that going in April, and we didn't, but we're working very proactively to try to get some of that work going in May.

So just to shorten this probably too long answer, I would say that I'm pleased with both the operational and administrative discipline that we have in the business and the way that has helped our cost structure.

And I'm pleased by the book of business that we're gradually building as we win more jobs. And so the final missing link is just making sure that our crews can move about between the islands safely and that we've got the contracts from the government agencies to get the work done.

But I think we are positioned for what could be a much more successful year this year if a few things just fall in place.

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

Okay. One last one for me. Could you just give us some insight onto the retail tenant watch list? How that is shaping up right now? And how that compared to a year ago?

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

Sheila, it's Lance. I guess I would answer that by saying we don't typically disclose our tenant watch list. I mean, obviously, tenant health is top of mind to us, not just for our nationals that may typically make the list, but for our locals as well.

And so as we're having our individual discussions with each tenant to best understand their needs and how we may be able to best assist them, we've got to make sure that they have the financial capability to really survive long term, and that's going to drive a lot of the decisions that we make in the near term.

Operator

Our next question comes from Alexander Goldfarb with Piper Sandler.

Alexander David Goldfarb - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

So let me just ask a few questions. First, thank you very much I have to say it, because I've been asking for it. Thank you for providing FFO, so really appreciate that. So Brett and team, thank you. And hopefully, the next thing that you guys can do for us is to release earnings a bit more than 30 minutes ahead of the call. We didn't get the e-mail alert until about 30 minutes before the call. So if we could have some more time in the future, it'd be awesome.

Let's just go to the -- what's going on. Obviously, Hawaii has come a long way, but as you pointed out, it's still tourism dependent. Great that the state will start to reopen, but clearly awhile before the tourism, especially the overseas tourism, comes back, how do you see your portfolio faring because it seems like it's going to be a while before it comes back this time versus prior downturns?

So when you look at where your rent levels are now versus your tenant productivity, how does it seem for your tenants now versus where it was back in '08 and then where it was back in prior downturns in the Hawaiian economy?

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

Well, I'll start. This is Chris, and then I'll invite Lance or anyone else to chime in. I think this is really -- this whole situation, as you can appreciate, is kind of totally incomparable to what we went through back in '08,'09.

And so I don't know how relevant comparisons are to that timeframe. What I can say is that we are hopeful, as you indicated, that we'll have a reopening within -- we'll have a reopening within Hawaii, but the key driver for the broader economic health of the state is going to be when can we open up from the Mainland and get people back. I'm on calls daily as I'm sure most of our listeners are on various webinars and talking to local business groups. I've been on calls the last couple of days. And there's no doubt that there's keen awareness of the importance of finding safe ways to bring tourist back in.

But I think there's also an urgency to just get the local activity going, get movement between the islands, get shopping centers fully open, even though our centers are all open, a lot of the stores are not open, get that going first, try to get some economic activity happening for our tenants. And then get it back to normal as soon as we can by bringing tourists back in.

So I'm not necessarily seeing anything new here, but what I am teeing up is the fact that the health of our tenants is really going to depend on the timing of that. And it's going to -- it's a very -- just a very different calculus in equation than it was back in '08, '09.

Having said that, Lance, if you want to add anything on the outlook, I would just say that, again, we are pleased that all of our centers are open when we've made a point of getting out there and driving through the parking lots and seeing the activity. And actually, we've been relatively pleased that the number of cars in the parking lot and the fact that there is activity at a lot of our tenants, and we're hoping that, that very steadily increases.

One thing I didn't note is that just yesterday, both some of the mayors and the Governor came out with the first round of additional retail re-openings that they're okay with. And so I think that, that's going to be a steady flow as we go through May.

Alexander David Goldfarb - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Okay. And then next question is, which sort of goes to that point about the month of May, given that this has been -- the impact has been building over time, it's easy to presume that the tenants had the April rent payments already in the bank in March but obviously, now we're 2 months into it. So is it your expectation that May rent collections are going to be even lower just given that scenario?

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

Lance, do you want to address that?

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

Sure. Alex, it's Lance. I think that one of the key milestones for us is how quickly our tenants can open. If you look at the numbers that we provided on Slide 11, it's not coincidental that we had 62% collections and 62% of our tenants are open for business.

So the most important thing, again, for us is to try to get them open physically, but also make sure that they're financially able to do so.

That said, obviously, the longer that they're closed, it's going to put more of a strain on their ability to make rent. And I have no doubt that some of them are going to have difficulties in reopening.

So I think it's really challenging for us right now to give any sort of forecast into May. It's just really too early to do so.

Alexander David Goldfarb - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Okay. And then just my final question, and you know I can't resist asking a question about Grace. You guys before had spoken about going after legacy jobs that had never been finished, and therefore, there were still outstanding receivables.

How do you stand on that? Are you basically caught up now? Are you -- have you gone through that whole backlog and now everyone's paid up? Or is there still a little bit more to go? Just curious where we stand on that.

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

So I'll now let Clayton jump in here, Alex. But I will say that we had another good quarter in the first quarter, collecting some receivables.

And I think it actually, at the Grace level, helped us generate some positive cash despite the negative earnings.

Clayton K.Y Chun - *Alexander & Baldwin, Inc. - Senior VP, CAO & Corporate Controller*

Yes, that's right, Chris. And Alex, the only thing I would add is that AR collection is continuing to be a focus area for Grace, in fact all of A&B, but we are happy with the progress we've made on that front. And the teams diligently working to close out any unfinished work that may still be outstanding.

So it's come a long way, but we're still focused on AR.

Alexander David Goldfarb - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

So on a percentage basis, how much of AR still needs to be collected? Is it -- you still have another 10% to go, 20%, 30%?

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

You mean from where we were, say, 6, 9 months ago when..

Alexander David Goldfarb - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Just to give us -- yes, you give us a sense of progression from where you were last quarter, where you are now? And then how much more you have until you're fully caught up?

Clayton K.Y Chun - *Alexander & Baldwin, Inc. - Senior VP, CAO & Corporate Controller*

Well, so the nature of the receivable balances, it's a little different from your commercial real estate in the fact that these are contracts and you go through a process to close out jobs, which inherently takes time just because of...

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

There's physical work that has to be done and inspected.

Clayton K.Y Chun - *Alexander & Baldwin, Inc. - Senior VP, CAO & Corporate Controller*

So the natural collection cycle is always going to be more drawn out than you see in the Commercial Real Estate side. We've historically haven't provided that level of granularity for receivables.

What I'd say is that we had made a lot of collections over the past couple of quarters and the receivable balance that we have left, we are -- I wouldn't say are primarily attributed to long outstanding contracts.

Operator

Our next question is from Steve O'Hara with Sidoti & Company.

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

I just curious on the nonpayment and how that would work. Can you just talk about how you're structuring that for different tenants?

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

Yes. Lance, do you mind describing that?

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

Sure. Steve, it's Lance. So our preferred method to dealing with our tenants right now is deferral. As I had mentioned earlier, we did offer deferral to a number of what we deem to be our most at-need tenants for the month of April.

And so that represented $1.1 million in April rent, which is about 8.7% of the month's billings and 73 bps if you were to annualize that. So that's, like I said, our preferred choice.

But our -- we have been sitting down with the majority of our tenants and just dealing on a one-off basis to better understand what their situation is and what the best options are for assistance, whether it's deferral or other things.

And that holds true for tenants that are open in terms of increased marketing that we've been able to do to support them, making sure it's -- we've got easy curbside access for their customers to tenants that are closed and thinking about how best to reopen their businesses once they're able to do so.

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

Okay, okay. And then just on the portfolio and the way this has impacted it? And maybe can you just talk about are there asset classes that you kind of wish you were in that you think are maybe more -- less susceptible to issues?

Are there areas where you think you're -- maybe in the future, you position something out of it? I mean, obviously, this is something that we don't know -- we don't have a good handle on exactly what's going to happen, obviously. But I mean, I'm just wondering if in the early days, you're -- you kind of have a feeling of maybe the way you might position things going forward or anything like that?

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

Well, Steve, let me -- this is Chris. Let me start and if Lance wants to chime in, I'll welcome him to do that.

I actually feel very good about our portfolio. As a Hawaii sharpshooter focused on the local market, I think that we're in some of the best asset classes we can be.

On the retail side, we're in grocery-anchored, we're not in malls. It's all needs-based. As I said, virtually every parking lot is relatively busy. It's not as full as it would be if everyone were open, but our centers still have activity, and I think that activity will just steadily increase in May.

I would be far less optimistic if we're in the mall space as far as our retail goes. And then, of course, we're not in office. We're not in hotel. Those are asset classes that I think not only have near term -- well, for hotel, it's near term. For office, I think there are longer-term questions about the impacts of COVID in this whole remote working thing.

So I'm very pleased with the asset classes we're in, in being in industrial. And of course, our ground leases, I think, they are relatively better positioned than the other asset classes we could be in, in Hawaii.

And frankly, I'm pleased to be in Hawaii because our flattening of the curve, the way we've been able to demonstrate control of the -- so far anyway, we know that it's not over by a long shot. But so far, we've had great control of the curve.

So I'm feeling very good about our geographic and asset concentration.

The one area where I think we'll be doing a lot of thinking is industrial and what sort of growth opportunities there are there.

I think that COVID-19 could present interesting growth opportunities for industrial, and that's been an identified growth area for us. So I think that we may grow more there.

But overall, I'm pleased with our portfolio distribution in light of what's going on.

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

Yes. I would just echo Chris' thoughts and add that, obviously, I think any of us would have been challenged to think about what a pandemic-proof portfolio would look like.

I have had to live through this now for a couple of months. I think one of the interesting things that have been reinforced to me is the importance of our community and neighborhood-based centers. And what they represent to the local population here, not just a needs-based place to get groceries and stock up for stay-at-home. But really a last-mile distribution hub for food to needy families that we've been able to support through our locations and just that proximity to the neighborhood.

And while it's probably too early to draw any sort of long-term trends or thoughts, I think one of the things that we've certainly learned is that work-at-home is working. And so I think the neighborhood centers and the ability for people to be at home and have close proximity and access to goods, at least in the long term, certainly in the near term, there's been a lot of disruption. But in the long term, that could play out to be favorable.

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

Okay. That's helpful. And maybe lastly, it's like 1Q was maybe better than I was expecting. It seemed like growth was stronger. Is there something -- is that the case? Or is it more or less in line with your expectations heading in?

I mean obviously, that's less of a factor at this point. But if you can just talk about that, that would be great.

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

I would say it was in line with our expectations. So we had strong leasing, particularly on the industrial side, which drove a big portion of our performance, particularly on occupancy.

We had -- we've been talking about our Komohana Industrial Park for a number of quarters, an opportunity that we had there, that we were able to lease and bring occupancy there up to 100%.

And then if you look at it sort of year-over-year with some of the acquisitions we made and being able to backfill some of those spaces early on, you're really able to see the performance of that piece of the portfolio, in particular.

Operator

And I currently show no further questions at this time. I'd like to turn the call back over to Steve Swett for closing remarks.

Stephen C. Swett - *ICR, LLC - MD*

Thank you, Shannon, and thank you all for joining us today. If you have any follow-up questions, please feel free to call us at (808) 525-8475 or e-mail us at investorrelations@abhi.com. Aloha, and have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
