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CORPORATE PARTICIPANTS

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

Clayton K. Y. Chun *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

Lance K. Parker *Alexander & Baldwin, Inc. - President & COO*

Steve Swett *ICR, LLC - MD*

CONFERENCE CALL PARTICIPANTS

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

Mitchell Bradley Germain *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

PRESENTATION

Operator

Good afternoon, and welcome to the Alexander Baldwin First Quarter 2023 Earnings Conference Call. (Operator Instructions) I would now like to turn the conference over to Steve Swett of Investor Relations. Please go ahead.

Steve Swett - *ICR, LLC - MD*

Thank you. Aloha, and welcome to our call to discuss Alexander & Baldwin's First Quarter 2023 Earnings. With me today for our earnings call are A&B's Chief Executive Officer, Chris Benjamin; our President and Chief Operating Officer, Lance Parker; and our Chief Financial Officer, Clayton Chun. The company has decided to forgo a presentation this quarter. During our call, please refer to our Q1 2023 supplemental information available on our website at investors.alaxanderbaldwin.com. Before we commence, please note that statements in this call that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding possible or assumed future results of operations, business strategies, growth opportunities and competitive positions. Such forward-looking statements speak only as to 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 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, results of operations, liquidity and financial condition and the evaluation of alternatives by the company related to its Materials & Construction business as well as other factors discussed in the company's most recent Form 10-K, Form 10-Q and other filings with the SEC. The information on this call should be evaluated in light of these important risk factors. We do not undertake any obligation to update the company's forward-looking statements. Management will be referring to non-GAAP financial measures during our call today. Please refer to our statement regarding the use of these non-GAAP measures and reconciliations included in our first quarter 2023 supplement. Chris will open up today's call. He will then turn the call over to Lance for an update on our real estate operations, and then Clayton will discuss financial matters. Chris will return for some closing remarks, where upon we will open it up for your questions. With that, let me turn it over to Chris.

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

Thanks, Steve, and good afternoon to our listeners. Our first quarter results reflect a great start to the year for A&B's commercial real estate business. Our high-quality retail, industrial and ground lease assets again produced strong results, continuing the trends we saw last year. Lance and Clayton will provide more details on our first quarter performance, but let me provide a few highlights. Commercial real estate revenue grew 3.5% year-over-year and our Same-Store NOI increased by 2.2%. During the quarter, we signed 49 leases for over 139,000 square feet and achieved blended leasing spreads of 7.4%. We ended the quarter with leased occupancy of 93.9%, down slightly from the prior year quarter as a result of an expected industrial move out. Our retail portfolio occupancy was up 50 basis points over the prior year, ending the quarter at 93.6%. These results reflect the quality and strength of our diversified portfolio and the solid efforts of our team.

Our performance also benefited from a strong local economy. Hawaii added nearly 20,000 jobs over the past 12 months, an increase of almost 4%. Non-farm wages increased 3.8% in March 2023 as compared to the prior year. And unemployment at the end of March was 3.5%. Both the construction and tourism sectors are helping fuel this growth with hotel and residential construction projects and tourism spend year-to-date through March 2023, exceeding the same period in 2019. As we've said before, our portfolio is generally community-based and less dependent on tourist activity, but tourism does support the state's overall economy.

Turning to growth, we closed on the off-market acquisition of a 33,000 square foot industrial asset earlier this week, and we continue to elevate -- sorry, we continue to evaluate other external growth opportunities. As we've discussed in the past, changes in the financial markets and higher interest rates have widened bid-ask spreads, but we remain disciplined and believe our relationships, deep market knowledge and balance sheet strength will help us source opportunities that are accretive to long-term value creation.

In addition to external opportunities, we continue to grow organically through development and re-development. We completed the first phase of our refresh at Manoa Marketplace and remain on track to complete the entire project in the third quarter. We expect our investment in that center will improve the visitor experience, leading to increased tenant demand and base rents over time.

We see additional value-add opportunities within our portfolio and expect to have more projects to announce in the future. The process of marketing Grace continues, but we're unable to provide more specific update today. I should note that Grace got off to a slow start to the year due to project commencement delays and a very rainy quarter, but our April tons paved exceeded the entire first quarter, so we've got good momentum now. Now I'll turn the call over to Lance. Lance?

Lance K. Parker - *Alexander & Baldwin, Inc. - President & COO*

Thank you, Chris, and aloha, everyone. Our portfolio continued to perform well in the first quarter. CRE revenue was up 3.5% in the first quarter compared to last year. This increase from the year ago quarter reflects the strength of our tenants and portfolio driven by higher base rent. NOI was up 2.2% year-over-year and Same-Store NOI was up 2.2%.

In the first quarter of 2023, there was approximately $680,000 of prior period reserve recovery compared to $2 million in the same quarter of 2022. This $1.3 million difference represents about 490 basis points of NOI growth. Overall, leased occupancy and Same-Store leased occupancy at quarter end were 93.9%, a decrease of 60 basis points from 12 months earlier. Same-Store retail lease occupancy was up 50 basis points to 93.6%. Same-Store industrial leased occupancy was down 290 basis points to 95.1%, primarily due to an expected tenant move-out at Kakaako Commerce Center. Same-Store economic occupancy at quarter end was 92.4%, up 40 basis points from 12 months earlier. Same-Store retail economic occupancy was up 200 basis points to 91.7%. And Same-Store industrial economic occupancy was down 280 basis points to 94.5%. Annualized base rent attributable to signed but not opened, or SNO, leases at quarter end was $2.3 million.

We executed 49 leases for approximately 139,000 square feet during the first quarter and achieved blended spreads of 7.4%, with spreads for industrial leases at 10.2% and spreads for retail leases at 6%. This activity included 11 leases related to properties in Kailua, including Aikahi Park Shopping Center, totaling approximately 24,000 square feet and 3 leases at Laulani Village, totaling approximately 32,000 square feet. We are pleased with the continued robust pace of leasing activity, and we have a strong pipeline of active deals and prospects that support a solid outlook.

With regard to growth, as Chris mentioned, we just closed on the off-market acquisition of an industrial asset located on Oahu for $9.5 million at a going in cap rate of 5.6%. The building is 33,000 square feet in size with 24-foot warehouse clear height and dock-high loading and is located in the growing industrial submarket of Kapolei, where the majority of our other industrial assets are located. The transaction was structured as a sale leaseback to a local water bottling and storage operator on a 10-year lease that includes 3% annual increases. Our investment team continues pursuing acquisition opportunities that are complementary to our current portfolio. In the meantime, we have continued focus on internal growth opportunities, including development and re-development, where we can better control investment timing and yields. Significant refresh of Manoa

Marketplace is progressing at this well-located property, the only grocery-anchored neighborhood center in the Manoa area. We remain on track to complete this renovation in the third quarter. I'll now turn the call over to Clayton for financial details. Clayton?

Clayton K. Y. Chun - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

Thanks, Lance, and aloha, everyone. Starting with our consolidated metrics. For the first quarter, we reported income from continuing operations available to shareholders of $9.5 million or $0.13 per diluted share. Turning to FFO and core FFO, first quarter FFO was $18.6 million or $0.26 per diluted share. Core FFO was $21.2 million or $0.29 per diluted share. As Lance mentioned earlier, each of these metrics for the first quarter of 2023 benefited from collections of previously reserved amounts of approximately $680,000 or $0.01 per diluted share. That compares to $2 million or $0.03 per diluted share in the first quarter of 2022. For additional details on our results, including comparisons to the first quarter of 2022, please see our earnings release and supplemental information package.

Let me now turn to our Commercial Real Estate segment. For the first quarter, CRE revenues increased 3.5% or $1.6 million over the prior year quarter to $47.9 million. This increase from a year ago quarter reflects the strength of our tenants and portfolio driven by higher base rent. CRE Same-Store NOI increased by 2.2% or $600,000 to $30.4 million compared to the same period last year. As I mentioned earlier, the first quarter of 2023 benefited from reserve reversals of approximately $680,000 as compared to $2 million in the first quarter of 2022. Excluding the impact of collections of previously reserved amounts, Same-Store NOI growth would have been 7.1%. Adjusted EBITDA in our Land Operations segment was essentially flat in the first quarter of 2023 compared to positive adjusted EBITDA of $4.6 million in the first quarter of 2022.

The reduction was driven primarily by a reduction in lot sales at Maui Business Park as compared to last year, partially offset by the gain on the sale of our legacy trucking and storage business in the first quarter of 2023. For the first quarter of 2023, G&A expenses were $8.7 million compared to $8.8 million in the first quarter of 2022. As noted previously, we expect 2023 G&A to be slightly elevated for the full year due to management transition-related costs. With regard to Grace Pacific, we incurred a $4.2 million loss in the first quarter. Grace remains in discontinued operations as we work to complete the disposition of the entity.

Turning to our balance sheet and liquidity metrics. At March 31, 2023, total debt outstanding was $479.2 million, and we had total liquidity of $472.6 million, made up of approximately $10.7 million in cash and $461.9 million available on our revolving line of credit facility. At quarter end, net debt to trailing 12-months consolidated adjusted EBITDA was 3x or 5x when excluding Land Operations in M&C. Our debt to total market capitalization stood at 25.9% at quarter end. We paid a first quarter dividend of $0.22 per share on April 4, and our Board recently declared a second quarter dividend of $0.22 per share that is payable on July 5. We are pleased with our results and are maintaining the guidance that we provided in February of Core FFO within the range of $1.08 to $1.13 per diluted share, Same-Store NOI growth within the range of 2% to 4% and Same-Store NOI growth, excluding prior year reserve reversals within the range of 5% to 6.5%. With that, I'll turn the call over for Chris for his closing remarks.

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

Thanks, Clayton. The first quarter again demonstrated the quality of our commercial real estate portfolio with strong occupancy and solid growth, which is a credit to our outstanding team. As I look ahead, I believe our business focus, strong balance sheet and deep Hawaii ties are strengths that will fuel A&B's growth and success as a commercial real estate company. As you know, I'm retiring on June 30, and I want to again congratulate Lance on his pending and well-deserved promotion to CEO on July 1. I'm very excited for the future of A&B under his leadership, and I look forward to seeing many of you on the road and at ICSC in May and at NAREIT in New York in June with Lance and Clayton. On a personal note, this is my 78th and final earnings call. I believe my parents have listened to every one of them, and they're listening today. So, I want to thank them for their support and say happy birthday tomorrow, to my mom. With that, we'll open the call for your questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions) Our first question will come from Alexander Goldfarb with Piper Sandler. Please go ahead with your question.

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

First, Chris, congrats on your farewell earnings call, and congrats Lance for taking over next time. And just so Chris' parents know they could press star one and ask their son some tough questions like we do, if they want fun. So let me -- I just have a few questions here. First, Clayton, I didn't see any update in guidance in the release. Maybe I missed it, but was there any change in guidance?

Clayton K. Y. Chun - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

No, we are maintaining our guidance that we provided in February. And so, I had mentioned that in the script, but bottom line is no change.

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

Okay. Second question is bigger picture. And certainly, we all saw that when we were out in Hawaii for the investor week, a number of weeks ago or last month, I guess it was. Certainly, there seems to be a population shift after the pandemic. You had a lot of people who came to the island and then ended up staying. And certainly, it's been a conducive environment relative to the West Coast, if you will. Has that shift in population and the new arrivals, has that changed how retailers are thinking about their presence on the island and maybe accelerating plans to open up more stores or bring more concepts or just changing how they think about product mix, given that it seems like there have been a fair number of West Coasters at least who have come and made the Hawaii their home, which probably have some different shopping habits, than people have lived in Hawaii their whole lives.

Lance K. Parker - *Alexander & Baldwin, Inc. - President & COO*

Hey Alex, it's Lance. We certainly have had an influx of West Coast visitors when you look at our visitor arrivals over the pandemic period. I'm not sure that, that is translated entirely into actual population increases. But that being said, I will say that retail interest in the state continues to be high. As we've discussed in the past, when you look at the performance of many of the retailers that are here, coupled with the fact that many of the top-performing retailers in the country don't have physical presence here. It is something that we continue to see in terms of interest, and it's something we continue to pursue as part of our growth strategy, having shopping centers on all of the 4 major islands and really being able to promote a one-stop shop concept for anyone new coming to the islands. And of course, we've been able to demonstrate that with tenants like Ulta, Chick-fil-A, most recently Sonic. And I will say with ICSC coming up in a couple of weeks. Clayton, Chris, myself as well as Jordan Brant, our Head of Leasing, will be there, and we look forward to sharing our story and having good meaningful discussions with prospective tenants.

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

But in other words, Lance, you're not -- since the pandemic and you had people who came there and whatever, you're not seeing an acceleration of retail. Like basically, it's still the same pace when they -- you guys go to do your presentations to the retailers about either first to the market or expanding, those pace of conversations haven't sped up at all still the normal time frame or time line?

Lance K. Parker - *Alexander & Baldwin, Inc. - President & COO*

Yes. I think that's a fair comment, Alex. I would say that those conversations remain sort of robust. I wouldn't say that they've accelerated or increased in the amount of interest.

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

Okay. And then the final question, Chris, so that you don't leave Lance with the paving business. Is your goal by year-end that you guys will be out, whatever it takes? Or is this going to be your intent is to exit Grace this year, but it may bleed into next year? Just trying to get a sense.

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

Well, certainly, our goal is to be out of the business this year. And I don't know that I would say any -- whatever it takes. I think that we're going to look to have the cleanest and best transition that we can. I remain confident that we will be able to get that done this year. And as you know, I think I will continue to support some of the simplification efforts over the second half of the year even after I retire as CEO, and it certainly would be our goal to get it done this year. And I continue to expect that we will.

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

Can you just give us a sense of the depth of bidders? Or just anything that you can that gives us a sense of how it's going.

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

No. We're limited in what we can say because we're actively engaged with a particular bidder and we have to honor the exclusivity of that process.

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

We like - Okay. Sounds good. That's helpful. Listen thank you very much.

Operator

And our next question will come from Mitch Germain with JMP Securities.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

So, I'd love to know more about the industrial move out. I know you said it's planned. I'm curious about some of the activity that you're seeing to replace that tenant in the market right now.

Lance K. Parker - *Alexander & Baldwin, Inc. - President & COO*

Hey Mitch, it's Lance. So yes, that was a 25,000 square foot tenant that had a natural expiration at the end of last year. And it represents effectively a full floor at our Kakaako Commerce Center, which is urban industrial multi-story industrial facility. And it does have some specialized improvements that we'll probably have to modify for a new tenant. But I will say, just given its location as well as parking, we've had a fair amount of interest. So, we remain positive that we'll be able to backfill that -- and that's really more just sort of a single vacancy in the portfolio, as opposed to a reflection of the portfolio as a whole for the market in general, which we still feel very confident about.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Lance, do you think you'll be able to re-let that at a higher rate? Or because of the work you need to do, it will -- economics will kind of work its way neutral.

Lance K. Parker - *Alexander & Baldwin, Inc. - President & COO*

Yeah. Probably a little early to make the call on that, Mitch. But hopefully, we'll have some better insight in the next quarter that we can share.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Great. I'm curious about your deal pipeline. Obviously, you acquire across more than one asset class. And so obviously, you bought an asset this quarter. Is that more reflective of the types of deals that you're seeing? Or is it highly diversified in terms of what you're underwriting right now?

Lance K. Parker - *Alexander & Baldwin, Inc. - President & COO*

I'd say it's a little diversified, but consistent with the types of assets that we hold, so retail, industrial and ground leases. I think this industrial building that we purchased is it's sort of reflective of current market conditions in that this was a sale leaseback. And so, our investments team was able to unlock the capital in this real estate for this company and have them able to redeploy that capital into the business. And just given the financial markets and conversations around liquidity, it was a good opportunity for them and certainly a good opportunity for us. And then I'd further just reinforce the fact that we're here, our local presence, we have our relationships, the team was able to source that opportunity off market. So that's really where we continue to focus on sourcing deals that make sense, and we are starting to see, I'd say, a deeper pipeline.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Great. Last one from me. Obviously, nothing that you need to worry about this year, but next year, you've got a couple of tranches of debt coming due, in particular, to mortgages. Is the goal to continue to unsecure the balance sheet, unencumber the assets? How do you think that process plays out for you?

Clayton K. Y. Chun - *Alexander & Baldwin, Inc. - Executive VP, Treasurer & CFO*

Yes. Mitch, this is Clayton. -- you're right that we do have those 2 mortgages that are maturing next year. And so just to address your question, our preference, all things being equal, would be to have unsecured debt. That being said, with respect to these 2 mortgages -- we have -- we entered into forward starting interest rate swaps in the fourth quarter, and that enabled us to lock in at a blended interest rate of 4.86%. And so, our intention is to refinance or commence the refinancing process starting later this year. So, we've had some good discussions with some of the banks, and we are confident in our ability to get that done.

Mitchell Bradley Germain - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Great. And Chris, best of luck on your future endeavors. It's been a pleasure knowing you.

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

Thanks a lot, Mitch. Thank you for the questions.

Operator

And this concludes our question-and-answer session. I'd like to turn the conference back over to Steve Swett for any closing remarks.

Steve Swett - *ICR, LLC - MD*

Thank you, operator, 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

Thank you for attending today's presentation. You may now disconnect your lines.