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PRESENTATION

Operator

Good day, and welcome to the First Quarter 2024 Alexander & Baldwin Earnings Conference Call. (Operator Instructions) This call is being recorded on Thursday, April 25, 2024. I would now like to turn the conference over to Ms. Jessica Welch, Senior Manager of Financial Reporting and Technical Accounting, thank you. Please go ahead.

Jessica Welch - *Alexander & Baldwin, Inc. - Senior Manager, Financial Reporting and Technical Accounting*

Thank you. Aloha, and welcome to Alexander & Baldwin's First Quarter 2024 Earnings Conference Call. My name is Jessica Welch, and I am a Senior Manager on our financial reporting and technical accounting team. With me today are A&B's Chief Executive Officer, Lance Parker; and Chief Financial Officer, Clayton Chun. We are also joined by Kit Millan, Senior Vice President of Asset Management, who is available to participate in the Q&A portion of the call.

During our call, please refer to our first quarter 2024 Supplemental Information available on our website at investors.alexanderbaldwin.com/supplements.

Before we commence, please note that statements in this presentation that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding possible or assumed future results of operations, business strategies, growth opportunities and competitive positions. Such forward-looking statements speak only as of the date 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, the evaluation of alternatives by the company related to its noncore assets and business and the risk factors discussed in the company's most recent Form 10-K, Form 10-Q and other filings with the Securities and Exchange Commission.

The information in this presentation should be evaluated in light of these important risk factors. We do not undertake any obligation to update the company's forward-looking statements. Management will be referring to non-GAAP financial measures during our call today. Please refer to our statements regarding the use of these non-GAAP measures and reconciliations included in our 2024 first quarter supplemental information materials.

Lance will kick off today's presentation with an overview of the quarter, then hand it off to Clayton for a discussion of financial matters. To close, Lance will return for some final remarks, and then we will open it up for your questions. With that, let me turn the call over to Lance.

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

Thank you, Jess, and Aloha, everyone. I'm pleased to say that we started the year strong. Total NOI growth was 4.4%, and we achieved same-store NOI growth of 4.1%. Same-Store NOI growth, excluding collections of previously reserved amounts was 3.9%. Same-store leased occupancy was 95%, 20 basis points higher than the same period last year, but down 70 basis points from last quarter due primarily to a move-out at Waianae Mall. Same-store economic occupancy at quarter end was 93.3%, down 10 basis points from last year and 70 basis points from last quarter. We executed 44 leases in our improved property portfolio for approximately 212,000 square feet, and on a comparable lease basis, achieved blended spreads of 7.8%, with spreads for new leases at 11.8% and spreads for renewal leases at 7.2%.

In our Land Operations segment, we sold more than 300 acres of land holdings which exceeded our initial target for 2024. We recognized nearly $7.9 million of operating profit in the first quarter of 2024 and compared to selling 1 acre and recognizing an operating loss of $92,000 in the same period last year. The disposition of remaining noncore assets remains a priority but the sale of land holdings will vary period-to-period and will be opportunistic in nature, and this quarter was an example of just that. The majority of the land that was sold at the end of March was not factored into our initial outlook provided in February, and we will, therefore, be raising our guidance to reflect the impact of this land sale occurring. Finally, on our last call, I mentioned the sale of Grace would enable us to simplify our reporting metrics.

You'll notice changes in our supplemental information package that improves period-over-period comparability and is presented in a way that will enable you, our analysts and investors to more easily evaluate our performance. I'd like to thank Jess and our financial reporting team for leading the initiative to make those enhancements.

Turning to the economic environment in Hawaii. Unemployment was 3.1% at the end of February versus the national average of 3.9%. Hawaii saw 1.5 million visitor arrivals in the first 2 months of 2024, flat compared to 2023. Visitors from the mainland U.S. continued to exceed pre-pandemic levels in the first 2 months of 2024, and visitor arrivals from Japan were more than 80% higher compared to the same period in 2023 and about half of their pre-pandemic levels. We believe our portfolio of primarily grocery-anchored neighborhood centers has and will continue to benefit from the strength of our underlying economy. And now I'll 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 of 2024. Net income available to shareholders was $20 million or $0.28 per diluted share. Income from continuing operations available to shareholders was $20.2 million or $0.28 per diluted share. FFO was $29.2 million or $0.40 per diluted share, which compares to $18.6 million or $0.26 per diluted share in the same quarter last year. Land Operations-related FFO was $0.11 per diluted share during the first quarter of 2024, primarily reflecting the land sales that Lance previously mentioned. This compares to the first quarter of 2023, where Land Operations contributed no FFO. FFO related to Commercial Real Estate operations and corporate was $0.29 per diluted share compared to $0.26 per diluted share in the same quarter of 2023. The $0.03 improvement was due primarily to higher rental revenue, lower bad debt expense and lower G&A compared to last year.

As we mentioned on our last call, with Grace now sold and our business activity made up primarily of Commercial Real Estate and Land Operations land sales, we are no longer reporting Core FFO. Instead, we are now reporting AFFO. AFFO was $25.5 million or $0.35 per diluted share for the first quarter of 2024. This compares to $16 million or $0.22 per diluted share in the same period last year. The increase in AFFO was due primarily to the land sales previously mentioned; higher net operating income in our commercial real estate portfolio and lower G&A compared to last year. Each of these metrics for the first quarter of 2024 benefited from collections of amounts reserved in previous years of approximately $800,000 or $0.01 per diluted share. For a comparative purposes, in the first quarter of 2023, collections of amounts reserved in previous years was $700,000 or $0.01 per diluted share.

G&A expenses decreased by $1.5 million or 17.1% to $7.2 million, which compares to $8.7 million in the first quarter of 2023 largely reflecting cost reductions due to our simplification and streamlining efforts as well as favorable timing differences. We will continue to manage our G&A overhead costs and are targeting a run rate for 2024 that approximates the $7.8 million that we reported for the fourth quarter of 2023. For additional details on our results, and comparisons to prior periods in 2023, please see our earnings release and supplemental information package.

Turning to our balance sheet and liquidity metrics. At quarter end, total debt outstanding was $458 million, and we had total liquidity of $470 million, made up of approximately $16 million in cash and $454 million available on our revolving credit facility. Approximately 90% of our debt is fixed rate. Net debt to trailing 12 months consolidated adjusted EBITDA was 3.8x, which compares to 4.2x at 2023 year-end. With respect to our dividend, we paid a first quarter dividend of $0.2225 per share on April 5, and our Board declared a second quarter dividend of $0.2225 per share that is payable on July 8. We have $58 million of debt secured by our Laulani Village asset which matures on May 1. We intend to pay off the mortgage with proceeds from the previously announced 8-year private placement note that we issued on April 15. In addition, we intend to use 1 of our 2 forward starting interest rate swaps to hedge the floating interest rate on our revolver debt once it becomes effective on May 1. We expect the combined impacts of the refinance together with the interest swap to be approximately 10 to 15 basis points on our overall cost of debt on a pro forma basis.

As Lance mentioned, given our overall performance in the first quarter, we are raising our guidance. We now expect Same-Store NOI growth in the range of 1.1% to 2.1% and Same-store NOI growth, excluding collections of amounts reserved in prior years, of 2.1% to 3.1%. We are guiding to FFO in the range of $1.05 per share to $1.16 per share and AFFO in the range of $0.89 per share to $1.00 per share. Our revised outlook primarily reflects the strong results we achieved in the first quarter. As we look ahead to the remainder of the year, there are a few timing-related items to point out. First; while there may be quarterly fluctuations, we expect our retail and industrial assets, to continue performing at levels consistent with what we had anticipated in our initial guidance.

Second, you may recall that we have significant ground lease renewals during this second quarter last year that provided an ABR increase of $1.1 million.

As part of that renewal, we also received 1 quarter's worth of retroactive rent in the second quarter of 2023. We are not expecting any significant fair market value resets this year. And as a result, we are expecting ground lease NOI growth to be slightly negative in the second quarter of 2024 and flat for the remainder of the year.

Third, we also expect certain office properties to be impacted by tenant move-outs later in the year as we look to reposition them.

Last, as we have mentioned throughout the call, we sold more than 300 acres of land in the first quarter of 2024. We planned to sell the majority of that land in 2025, so the benefit of selling these lands was not factored in our initial 2024 guidance. As a result of the land sales in the first quarter, we are increasing our 2024 Land Operations FFO per share range by $0.09 per diluted share on the low end and $0.10 per diluted share on the high end. We are also raising FFO per share attributable to CRE and Corporate by another $0.01 on the low and high ends, reflecting our stronger-than-expected CRE performance in the first quarter. With that, I will turn the call over to Lance for his closing remarks.

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

Thanks, Clayton. The first quarter demonstrated the strength of our outstanding team and quality of our assets. Our portfolio is performing well, our balance sheet is strong, and we have taken steps to limit our exposure to rising interest rates. With these accomplishments, we are well positioned to grow our business. We continue to make progress on internal growth initiatives, and I am encouraged by the pace and types of external investment opportunities we have been underwriting in the first 3 months of this year. On that note, we'll now open the call up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Rob Stevenson from Janney.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Clayton, in terms of the FFO from land sales. How much was that in the first quarter? And how much does that represent of the $0.05 to $0.11 guidance for the year?

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

So the $0.11, what we did for purposes of our revised guidance, it was updated to reflect the actual impact of our first quarter performance. And so the $0.11 is built into the overall revision. Does that answer your question?

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Okay. So the rest of the year is flat to negative 6?

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

So we -- I guess I should just start off by saying that we have mentioned in the past that non-core land sales remain a priority for the company. And so we're going to continue to pursue every opportunity to monetize and simplify what's left in this non-core portion of our business. But with respect to what's incorporated into our forecast for the balance of the year, we are having -- or we've been in some discussions with potential buyers of additional parcels. But at this point, it's too early for us to indicate whether or not those will occur or not. And so from that perspective, we've simply updated our overall guidance for the year to reflect the actual results related to Land Ops.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Okay. And then the -- and I'm going to butcher it. But the Waianae Mall, you had, I guess -- roughly a 17,000-foot user move out of there. What is the plans for that space and the timing? Is it going to need for you to -- any sort of redevelopment? Is it just going to be re-leased more or less as is? How are you guys thinking about that space?

Kit Millan - *Alexander & Baldwin, Inc. - SVP of Asset Management*

This is Kit. So yes, it was a -- it's actually -- it's about 20,000 square feet overall if you talk about the adjacent spaces. And we're really happy that we are in discussions for a backfill with a high credit tenant. And we're optimistic about being able to get that deal done.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Okay. And how material was the rent that you did get from the tenant in the first quarter? Or was that all out of the first quarter? In other words, what do we need to strip out of any sort of stub revenue in order to get to the current run rate?

Kit Millan - *Alexander & Baldwin, Inc. - SVP of Asset Management*

So they moved out in late January, so 1/3 of the quarter was in there. What I will say though is that our original guidance still stands relative to the retail portfolio.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

All right. And then I guess the last one winds up being is that you guys announced in the release about the industrial -- the new industrial development that you guys are in the planning stages for. How much is behind that? And is anything else at this point, likely to be started in 2024 or anything else that you guys are planning is likely to be a '25 or later start?

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

Rob, this is Lance. We continue to be opportunistic in terms of potential transactions and build-to-suits at Maui Business Park. And so while there has been some interest, in terms of firm deals, it's really just the one that we announced earlier in the year. But I think it's important, maybe a couple of things. One, in our SNO, that we have about $1 million in SNO attributable to that deal that we expect to come economic late next year that is not currently in our number. So I just want to make sure that people are aware of that. And then maybe just speaking a little bit more broadly because, of course, we think about growth opportunities, both internally as well as externally. So whether it's development at Maui Business Park, repositioning of some of our retail assets, that falls into the same bucket as acquisitions. And what I would say on the acquisition front is that although the market remains tight from a marketed deal standpoint, our investment team, which is led by Jeff Pauker, they're actively out there working allof our existing Hawaii relationships looking for off-market transactions for us. And while it would be probably premature to give insight into specific deals or even a dollar amount for 2024, just based on what we're seeing at the top of the funnel, as I mentioned in my prepared remarks, I am encouraged that we'll be able to place some investment capital in 2024.

Operator

And your next question comes from the line of Connor Mitchell.

Connor Mitchell - *Piper Sandler & Co., Research Division - Research Analyst*

I guess just kind of following that line of question and answering, you guys are looking at some acquisitions. We talked about the development of Maui Business. Can you just speak to how you guys think about your balance of industrial and retail and other lines of revenue, other property types as well? We've been hearing about maybe some industrial developments pulling back or slowing down just due to the broader economic outlook and environment. So if you guys can just talk about how you see the mix of your property types, whether it's acquisitions or developments?

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

Yes. Connor, it's Lance. Maybe from a market perspective, we still view all of the existing asset classes that we're in as favorable. So whether it's retail, whether it's industrial, whether it's our ground lease portfolio, we're still seeing market conditions that are very encouraging to us. And maybe unlike other domestic industrial markets, we're still at a very, very low vacancy rate and feel strong about the near-term prospects for that. So all of that being said, I would say, in terms of -- this is really kind of a capital allocation question, whether it's internal or external, I think we're really more agnostic and whether it's a specific asset class versus another, similarly, we're pretty agnostic. It's really more opportunistic in terms of return profile, risk-adjusted return profile. And as long as it fits within the box that we're comfortable with, it's certainly something that we'll take a look at. And of course, we've acknowledged that in the past, given the fact that we're geographically focused here in Hawaii, we will get creative in terms of opportunities within the state to invest capital.

Connor Mitchell - *Piper Sandler & Co., Research Division - Research Analyst*

Okay. I appreciate that. And then maybe going back to the Land Operations and the sale. It sounded like you guys were saying that you're expecting the majority or all of the remaining Land Operations and sales to take place by the end of 2025? But you're not really making any expected transactions in 2024. Did I get that correct?

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

Maybe I can just sort of reiterate some of the bigger picture, more strategic and then have Clayton talk a little bit about specific guidance. So as Clayton mentioned, we had a great -- obviously, a great quarter in Land Ops in Q1. It really was opportunistic in terms of some land transactions, primarily on Maui, and we will continue to pursue those types of transactions. It is difficult for us from a timing perspective to really forecast what that looks like. And clearly, we sort of blew through our guidance and took advantage of a good buyer relationship that we had on one deal in particular, they were able to move very quickly and we were as well. And so to the extent that those types of transactions come up, we will definitely be ready to execute on them.

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

Then with respect to the guidance portion of your question, I think it's important to note that the land sale that we were talking about that really moved the needle for the segment, FFO for the quarter, that was not factored into our 2024 guidance because that was assumed to occur at a later period, so 2025 time frame. That is not to say that we expect to have everything monetized by 2025. As Lance indicated, we're prioritizing the non-core land sales and are going to continue to pursue every opportunity to monetize and simplify the non-core aspects of the business. But with respect to that specific question, we did not have that factored into our 2024 guidance. I hope that helps.

Connor Mitchell - *Piper Sandler & Co., Research Division - Research Analyst*

Yes. Yes. I appreciate the clarification. And then maybe one more just on the land sales as well. We talked about in the past, the overhead expense attached to the Land Operations. Could you just provide an update on maybe how that was affected with this land sale that took place for the quarter? And maybe how much more there is attached to the remaining Land Operations?

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

Yes. So as we have mentioned in the past, as we're able to monetize this non-core portion of our business. It also provides us an opportunity to simplify overall. And so in the case of this quarter's land sales, we're expecting that there will be approximately a few hundred thousand dollars of carrying costs that will be eliminated as part of the simplification that comes along with that sale. And so as I said before, we're going to continue to opportunistically jump on any other monetization opportunities that come about. But with respect to that particular transaction, you can expect about a few hundred thousand dollars for annualized run rate purposes.

Operator

And your next question comes from the line of Mitch Germain from Citizens JMP.

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

It seems like same-store, it sounds like ground lease and office is going to be a bit of a drag here in the back part of the year, which is why the 4% is going to be closer to a 2% number. Is that the way to think about it here?

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

Yes. So what we were indicating in the scripted remarks is that there's a couple of factors in play here with respect to the same-store NOI guidance. So in the case of the ground leases, you may recall that in the second quarter of last year, we had a large rent step-up with Windward City Shopping Center. And so that amounted to approximately $1.1 million in ABR increase that came about with that renewal. And so we're not expecting any significant fair market value resets to occur in 2024. And so that is factoring into the guidance and probably what you're seeing with respect to your question.

The other thing that we wanted to point out was on the office side of things, although it's a smaller portion of our overall portfolio, we do have some -- some move-outs that are occurring that, frankly, are allowing us to reposition those assets. And so that's also weighing into our overall guidance for the Commercial Real Estate results.

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

Okay. That's helpful. Just overall balance sheet. Some of the language around your swaps. I didn't fully hear it. So maybe if you can just talk about, specifically, you said around 10 or 15 basis points, I believe, on the credit facility. Maybe just talk about that strategy and the recent notes offering that you did. And how that is versus your expectations?

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

Yes. So we have a mortgage note related to the Laulani Village asset that is maturing in May. And so what we did during the quarter was we entered into a $60 million private placement note that has a duration for 8 years, comes with a 6.09% coupon. And so what we did in addition to that was utilized 1 of the 2 forward starting interest rate swaps that we have. And so what we're doing with respect to that is applying it against -- to our variable rate debt on the revolver. So the swap itself is for $57 million and between the two -- so the private placement as well as the utilization of the swap, in total, our overall cost of debt for -- across the board is going to be impacted by the 10 to 15 basis points.

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

Higher or lower?

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

Higher.

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

Higher. Okay. That's what I thought. And then if I'm not mistaken, you have another slug of debt coming due later on this year, correct?

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

We do. Yes, that's related to our Pearl Highlands mortgage, which is coming due in December.

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

Got you. So do you have a -- you don't have a swap that's currently in place for that mortgage, correct?

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

So that mortgage is currently fixed rate. What we do have though is a -- that's the other forward starting interest rate swap which is for a notional amount of $70 million. And so where we stand right now is we are considering a number of options. We've been in discussions with banks. And so at the end of the day, what we could pursue is either a refinance with the existing lender. So effectively have a form of secured debt, we could also pursue unsecured debt. And so at this point, we're in discussions and we'll provide more additional information as we proceed down this path and are able to do so.

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

Got you. Last question. The move out that was referenced in late January. What type of space is that or what type of tenant?

Kit Millan - *Alexander & Baldwin, Inc. - SVP of Asset Management*

So I would -- it's more a mid-box top type space. The previous tenant was more of a community type use. And so our goal is to reposition that with more of a traditional mid-box space.

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

Got you. I was just curious if it was a restaurant or something like that, that's why. I appreciate you.

Operator

And your last question comes from the line of Brendan McCarthy from Sidoti.

Brendan Michael McCarthy - *Sidoti & Company, LLC - Equity Research Analyst*

Congrats on the results. I just wanted to start off with the 300 -- just want to start off with the 300-acre sale to the owner of Nan. I guess, are you able to disclose the financial details of that sale and, I guess, the cost basis?

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

We have not disclosed the specifics of the deal for competitive purposes. But obviously, that along with a couple of other land sales, you can see the results from an FFO standpoint. And my comments earlier in reference to a buyer that we had a strong pre-existing relationship. They were the buyer of Grace Pacific late last year. And so we were able to really parlay that relationship into another opportunity for us.

Brendan Michael McCarthy - *Sidoti & Company, LLC - Equity Research Analyst*

Got it. And probably is fair to assume that relationship was what caused that sale to, I guess, maybe get pulled forward a little bit from a timing perspective?

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

It was. And quite frankly, another driver is to why it happens so quickly.

Brendan Michael McCarthy - *Sidoti & Company, LLC - Equity Research Analyst*

Yes. Okay. And then looking at the balance sheet, nice move down in net leverage, 3.8x, I believe. Can you just talk about what leverage number you're comfortable with? I think I remember seeing a 5x to 6x range might be a target. But maybe just kind of your outlook there for 2024?

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

Brendan, it's Clayton. So you got it right that in terms of our long-term target, we are shooting for 5x to 6x net debt-to-EBITDA. And so we're in really good shape from a balance sheet perspective and what this does is provide us the dry powder for growth opportunities.

Operator

That concludes our question-and-answer session for today. I will now hand the call back to the management for closing remarks.

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

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. This concludes today's call. Thank you all for participating. You may all disconnect.