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ALEX - Q1 2012 Alexander & Baldwin Earnings Conference Call

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OVERVIEW:

ALEX reported 1Q12 adjusted net income (excluding results from discontinued CLX2 operations and separation expenses) of $7.2m or $0.17 per share.

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PRESENTATION

Operator

Good day ladies and gentlemen. Welcome to the first quarter 2012 Alexander & Baldwin earnings conference call. My name is Anesia and I will be your operator for today. At this time all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of the conference.

(Operator Instructions)

I would now like to turn the call over to Ms. Suzy Hollinger. Please proceed.

Suzy Hollinger - *Alexander & Baldwin, Inc. - Director of IR*

Thank you. Aloha and welcome to Alexander & Baldwin's first quarter 2012 earnings call. On the call with me today are Stan Kuriyama, A&B President and CEO; Joel Wine, A&B's CFO; Matt Cox, President of Matson Navigation Company; and Chris Benjamin, President of A&B Land Group. Also in the room with us today is Paul Ito, A&B's Controller, who will become CFO of the new A&B upon separation. Before we commence, please note that statements in this call and presentation that set forth expectations or predictions are based on facts and situations that are known to us as of today, May 9, 2012. Actual results may differ materially due to risks and uncertainties such as those described on pages 19 through 29 of our 2011 Form 10-K and our other subsequent filings with the SEC. Statements in this call and presentation are not guarantees of future performance, and we do not undertake any obligation to update our forward-looking statements.

Management will be referring to non-GAAP financial measures when discussing results for the first quarter. In particular, we will be referring to non-GAAP net income and diluted earnings per share that exclude the impact of losses from the discontinuation of CLX2 and separation expenses. We will also be referring to cash net operating income. Included in the appendix of today's slide presentation are reconciliations of the GAAP to non-GAAP financial measures, a statement regarding our use of these measures, and additional SEC-required information. Slides from this presentation are available for your download at our website, www.alexanderbaldwin.com. This slide provides you an agenda for our presentation after which we'll take your questions. We'll start with Stan who will comment on the quarter.

Stan Kuriyama - *Alexander & Baldwin, Inc. - President and CEO*

Thank you everyone for joining our call today. Company results were mixed for the quarter. Both our Leasing and Agribusiness segments continued their strong performance, and we experienced an improvement in Ocean Transportation operating profit due to the continued carriage of the entire Guam trade and improvements in Transpacific volumes and yields which were offset however by lower container volumes in Hawaii. The overall year-over-year decline in consolidated earnings was attributable to the timing of real estate sales, and to a lesser degree, separation costs that we began incurring in the quarter. Excluding results from our discontinued CLX2 operations and separation expenses, adjusted net income for the quarter was $7.2 million or $0.17 a share.

We remain on track to complete our separation into two publicly traded companies early in the third quarter. As indicated on this slide, we have completed our S4 registration and have submitted our Form 10 to the SEC and our tax-free ruling request to the IRS. The final separation date will be determined by the timing of our receipt of these SEC and IRS approvals. In addition to the regulatory filings, we have increased the amount of financial and non financial disclosures on our Transportation and Land businesses to help investors assess the value and prospects for each of our businesses. On April 11 in New York City, the A&B and Matson Management teams made in-depth presentations on their businesses, and we issued an expanded real-estate supplement. The presentation materials are available on our website, and I encourage you to review them if you haven't already done so.

Part of the investment thesis for both companies is that Hawaii is at a positive inflection point in the economic cycle, and each company is well positioned to benefit from an up-lift in Hawaii's economy. Recent economic data continues to be positive. Tourism performed extremely well in the first quarter with arrivals up 9% and expenditures up 14% over last year. Tourism from Japan experienced a strong rebound with March arrivals being the best March in the last five years, and visitors from Korea and China grew by 38% and 24%, respectively. State tourism officials now expect that Hawaii will post the best year in the state's history for both visitor arrivals and expenditures. State unemployment continues to be relatively low at 6.4%, and bankruptcy filings declined 21% in the quarter.

The Hawaii economy is projected to grow by 2.3% this year, and in the mid to high 3% range for the next several years. The Oahu residential real estate market is also firming with steadily rising home prices and low inventory levels. Based on information released yesterday by the Honolulu Board of Realtors, through April, median home prices on Oahu have now posted six consecutive months of year-over-year increases, and the months of inventory declined by 23% from the beginning of the year to 3.7 months. I am pleased to report that at our 340-unit Waihonua high-rise condominium project near the Ala Moana Shopping Center, we have to date secured 192 binding sales contracts with 10% deposits which should enable to us move forward with construction sometime in the fall. And, as demand for real estate translates into improvement in Hawaii residential construction, we would eventually expect to see a positive effect on Matson's shipping volumes as well. Let me now ask Joel to take you through the financials.

Joel Wine - *Alexander & Baldwin, Inc. - SVP, CFO and Treasurer*

Thank you, Stan. This slide breaks down operating profit by business segment. As Stan indicated, year-over-year operating performance improved for the Ocean Transportation, Leasing, and Agribusiness segments. However, the variability and timing of real estate sales impacted consolidated operating profit, which was $8.6 million lower. In the quarter we experienced an increase of corporate expenses pre-tax to $8.9 million versus $4.2 million in the first quarter last year. Of this increase, approximately $3.3 million was attributable to separation costs. On the next slide, cash flows used in operating activities were $20 million in the quarter due primarily to increases in working capital, the majority of which relates to the seasonal buildup of sugar inventories and increases in pension contributions.

Overall, our first quarter operating cash flows are traditionally lower due to seasonality. Seasonality affects Matson as freight volumes are usually the weakest in the first quarter of the year and significant working capital investment is also required at HC&S because of the start of harvesting and building of sugar inventories. Our debt increased $37 million for the quarter due primarily to these seasonality factors. The bottom of this slide shows the reconciliation of capital expenditures shown on the cash flow statement to total capital expenditures including amounts invested in joint venture developments and real estate held for sale. Through the first quarter our capital expenditures amounted to $27 million and included $15 million of development capital for active projects and joint ventures with the remainder primarily from maintenance CapEx.

Slide 10 shows the consolidated balance sheet with total assets of $2.6 billion. From a debt capitalization point of view, we have previously stated that our debt will be allocated approximately 60% to Matson and 40% to A&B. We are moving forward with our financing plans to put these new capital structures in place. Post-separation, we expect A&B's funded debt to consist of approximately $250 million of long-term debt and the balance of outstanding debt to be funded from a new five-year revolving credit facility. For Matson post-separation, we expect approximately $300 million of long-term funded debt and the balance of outstanding debt to be funded from a new five-year revolving credit facility.

Before turning the presentation over to Matt, I would like to brief you on our expectations regarding administrative expenses and one-time non-cash charges related to separation. For the full year 2012, we expect professional fees and other one-time expenses related to the separation will range from $20 million to $22 million pre-tax including $3.3 million of pre-tax separation expenses recognized in the first quarter of 2012. We estimate that Matson's and A&B's shares of the one-time separation expenses will be relatively equal. In addition to the professional fees and other cash expenses related to the separation described above, we anticipate recording non-cash expenses arising from the exchange of options held by existing employees that will be replaced with options in the new companies. Under this exchange, employees will receive replacement options that will retain the same intrinsic value and the same vesting schedules associated with the original options that existed immediately prior to the exchange. However, we are required to record incremental non-cash expenses for the difference in Black-Scholes values of the original and replacement options.

As we get closer to the time of separation, we will give further guidance regarding the potential size of any non-cash expense associated with the Black-Scholes valuation of the original versus replacement options for either company. That covers our expectations about each company's separation costs and expenses. With that, I'll turn the presentation over to Matt to discuss Matson.

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Thanks, Joel. Ocean Transportation operating profit increased 50% compared to the first quarter of last year. Supporting the year-over-year increase was a significant increase in Guam volume, which almost doubled, and a modest improvement in China volume and rates. Performance at our Hawaii trade lane, however, was lower and I'll get into the reasons for that in just a moment. Matson's financial performance was also affected by increased costs related to vessel and barge drydocks, including higher vessel operating costs and outside transportation costs and by higher terminal handling costs. The ship drydocks were completed in the first quarter and the first of two barge drydocks will be completed in late May at which time a second neighbor island barge will be placed into drydock. Hawaii volume was down 4% in the quarter, owing to several factors, including a customer supply chain shift of certain international cargo to move directly from Asia to Hawaii, business from 2011 store openings and construction projects that did not repeat themselves in 2012, and a modest decline in the overall Hawaii market. Auto volume was down 6% due to the timing of automobile rental fleet replacement activity and reduced manufacturer volume.

For Hawaii, we now expect a relatively flat to modest decline in westbound container volume for the full year 2012, which is in part a result of the diversification of international volumes now moving directly to Hawaii from Asia mentioned a moment ago, and the lack of construction activity which we do not expect to materially improve until 2013.

In Guam, we continue to benefit from the exit of Horizon Lines from the trade last November which explains the significant increase in volume year-over-year. This increase in Matson volume masks a moderate contraction in the trade itself. Significant expansion in the trade will occur when construction related to military relocation commences. However, we don't currently see any signs of a near-term start to the buildup and we do continue to expect that it will be delayed. You may have seen recent news reports confirming that the military's relocation to Guam is not anticipated to be as large as it was originally planned. It is now reported that 5,000 Marines will relocate to Guam from Okinawa. This still represents, however, a significant expansion in the military's presence in Guam and will provide for a more orderly growth of the island's infrastructure. In addition Hawaii will now benefit from the relocation from Okinawa as it was also announced that 3,000 Marines are planned to be moved to Hawaii. Matson's Guam volumes for the full year 2012 will depend on the timing of a new entrant which we continue to expect in the longer term but it is difficult to predict in the shorter term.

In China, we were pleased to see the improvement in both volumes and spot rates in the first quarter, which we believe are a result of better capacity management by the carriers in the trade. However, carriers were unable to achieve meaningful increases in the annual contracted freight rates based on the results of the contracting season that just ended. As a reminder, Matson's China freight is approximately 50% spot rate and 50%

annual contracted freight. It's our expectation now that freight rates will be relatively stable with the levels experienced in the first quarter for the balance of the year.

Logistic Services operating profit declined in the first quarter compared with last year, primarily due to an 8% decline in highway volume, primarily in full truckload services and lower warehouse results due to surplus capacity caused by the loss of two major customers in Northern California in 2011 as previously reported. Domestic Intermodal business was up in the quarter due to a 14% increase in volume which has more than offset lower International Intermodal performance due to a discontinuation of our CLX2 service and the loss of major customer. We remain focused on customer retention, expansion and improvement at our warehouse facilities, and organic growth in the intermodal and highway businesses to improve profitability of our Logistics unit. One area of emphasis that's underway is the 53-foot container pilot program that we expect to get started in the third quarter of this year. We believe that the use of the private 53-foot containers will help Matson Logistics expand the customer base by meeting shipper preferences for customer ownership -- container ownership. With that, that concludes the first quarter transportation update. Chris will now update you on the Land Group.

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

Thanks, Matt. I will start with Real Estate Sales. Although sales activity was generally positive in the first quarter, and we posted a modest profit, we had a particularly active first quarter in 2011, and so our year-over-year comparisons are unfavorable. Among our first quarter activity, as previously mentioned, was the sale of a four-acre parcel at Maui Business Park to Costco for $38 a square foot, although the gain on that sale will not be recognized until the third quarter when associated site work is completed. The Real Estate Sales segment is always subject to the timing of sales closings and at this time we anticipate minimal closings in the second quarter but better performance in the latter half of 2012. Since we provided a very thorough update on our development pipeline just a few weeks ago in our investor webcast, I'll provide just a brief update on a few projects.

As previously mentioned, we're seeing significant demand for our Waihonua high-rise condo units in urban Honolulu. As Stan indicated, we have 192 binding sales contracts which equals about 56% of the 341 units available. We're working on the financing for the development and have commenced the final construction bid process. We feel very good about this project and its prospects. We're making progress with on-site construction in the first increment of Maui Business Park II. This will facilitate continued marketing of the project as the year progresses. And at Kukui'ula, momentum continues to build as a steady stream of positive press for the project continues as does traffic through the sales office. We're working with our joint venture partner, DMB Associates, to modestly expand our vertical program in order to stimulate additional development and we're confident that this will drive more sales. In April as an example, we closed the sale of a $2.75 million cottage that we had developed, which reinforces the value of having homes available in an environment where lot sales remain slow. In addition to the modest vertical development being undertaken by our joint venture, we have two builder programs underway, and another under negotiation.

Moving on to Leasing, the Leasing segment continues its strong performance posting $10.7 million in operating profit, and $16.1 million in cash NOI in the first quarter of 2012. Mainland occupancy was up modestly in the quarter to 93% compared with 92% for the fourth quarter and 91% a year ago. Hawaii occupancy was relatively stable at 91%. For the full year, we expect leasing operating profit to be modestly better than it was in 2011.

Finally, Agribusiness operating profit improved 35% in the first quarter compared to last year. The increase is primarily from improvement in operating margins due to higher power and lease revenue and lower operating expenses resulting from the sale of the coffee operation in 2011. While it's early in the sugar harvest, which runs from late March through early December, and we have to be mindful of the operational and commodity pricing risks that we face in the sugar business, we do except Agribusiness to continue its strong performance in 2012, as favorable pricing has been locked in for about 75% of this year's expected crop. Looking ahead, we also have mitigated commodity risk by locking in pricing for about half of next year's crop. With that I'll now turn it over to Stan for closing remarks.

Stan Kuriyama - *Alexander & Baldwin, Inc. - President and CEO*

Thank you, Chris. Our outlook for the year contemplates modest improvement in Ocean Transportation, driven by increased Guam volume and modest improvement in China rates, although we do expect continued softness in Hawaii volumes through the second quarter. In Logistics, despite a slow start to the year, we expect flat to modestly better year-over-year earnings from this segment. Both Real Estate Leasing and Agribusiness are expected to continue their strong performance. Due to the variable nature of real estate sales, it's difficult to provide guidance at this point in the year although we currently expect that most of our sales will occur in the second half of the year.

Overall, the Company remains financially strong and our businesses are well positioned for growth. We are enthusiastic about our prospects as separate companies. We are encouraged by the continuing strong performance of our tourism industry and what that bodes for the Hawaiian economy and we are working hard toward an early third quarter closing of our separation transaction. That concludes our presentation today. And, we'll now open it up for your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Sheila McGrath, KBW.

Sheila McGrath - *Keefe, Bruyette & Woods - Analyst*

Good afternoon. Stan, I was wondering if you could just walk through the milestones that we should expect over the next couple of months in terms of the separation. So you're waiting right now on a ruling from the IRS and SEC. Any sense on timing of that? Then when would the stocks start to trade in the when issued market?

Stan Kuriyama - *Alexander & Baldwin, Inc. - President and CEO*

The key milestone, Sheila, are as you say, first receipt of IRS ruling on our tax-free request, we've gotten some initial verbal comments there and awaiting the formal written comments from the IRS. We're making some progress there. SEC had given us their first round comments on the Form 10. We have responded, so I think we're in pretty good shape there. Third item, of course, is final Board approval which we will be seeking at the time that these two items fall into place. Finally, we want to make sure our financing is also in place of course at the time of separation. In terms of how it trades, why don't I refer that over to Joel.

Joel Wine - *Alexander & Baldwin, Inc. - SVP, CFO and Treasurer*

Sure. Sheila, so your question is when will the stocks trade, when issued. Basically, once the final Board meeting is held to determine that everything that Stan just mentioned is in place and the Board is ready then to make the decision to formally move forward with the separation. There would be about a 10-day period of time from that Board meeting to when the when issued trading would start. So we would issue a press release at that time, and there would be therefore about a 10-day notification before the when issued trading started.

Sheila McGrath - *Keefe, Bruyette & Woods - Analyst*

Okay. So this is the -- this likely will be the last quarter that you announce combined results? Is that right?

Stan Kuriyama - *Alexander & Baldwin, Inc. - President and CEO*

Based upon our current schedule, that's correct.

Sheila McGrath - *Keefe, Bruyette & Woods - Analyst*

Okay. Then a couple on the real estate side since I probably won't continue to cover on the shipping side. Chris, I was wondering if you might, Chris or Stan, comment on the property sales? You said you expect more in the second half. Do you mean land sales perhaps at Maui Business Park, or are you expecting to continue to sell improved properties?

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

So the -- this is Chris, Sheila. It's always hard to say exactly what's going to close, but we would anticipate certainly some land sales. We would hope -- we've got some things that we're targeting at Maui Business Park, still very uncertain as to the timing of closing, whether it would be this year or next, but that's certainly something that's being targeted. Some other non-core land sales could materialize this year. And then property sales, as we've said before, are really going to be driven more by the timing of acquisition activity.

And while we are looking at a number of assets to acquire, the exact timing of that is uncertain, and that will, to a large extent, drive the disposition of any assets as we seek to transition some of our capital back to Hawaii. So that's almost as vague an answer as I probably could have given, but I would say the short answer to your question would be, almost certainly some land sale activity, and possibly some commercial property sale activity, but that will be driven more by acquisition prospects.

Sheila McGrath - *Keefe, Bruyette & Woods - Analyst*

Okay. And then one specific question on -- in the press release on the real estate sales segment, in the line item earnings from joint ventures, that was -- there was a negative $1.6 million. What exactly is in that -- what's dragging that down? Is that Kukui'ula?

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

I'll ask Paul to jump in if I get this wrong, but I would think that the vast majority of that, probably all of that would be the ongoing operating expenses and our share of them from Kukui'ula. Paul is nodding so I think I've got it right.

Paul Ito - *Alexander & Baldwin, Inc. - VP, Controller and Assistant Treasurer*

That's correct, Chris.

Sheila McGrath - *Keefe, Bruyette & Woods - Analyst*

Okay. Thank you.

Operator

Jack Atkins, Stephens.

Jack Atkins - *Stephens Inc. - Analyst*

Good afternoon, guys. Thanks for taking my questions. First on the Hawaii volumes, Matt, I was wondering if you could maybe comment on sort of the incremental tone that it sounds like you guys have with regard to the Hawaii service today versus your fourth-quarter call. Just kind of curious on what exactly has changed there versus the last time you guys spoke publicly about that both at your analyst day and on the fourth-quarter call.

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Sure, Jack. I'll take a crack at that. I think you are right to say that we've taken a slightly more measured tone than we did at the year-end call. The thing that changed from our perspective was a significant change in the routing as I mentioned in my comments of non-US international cargo, which was -- seemed to be rerouted, instead of from foreign origins to the US west coast, and then carried into Hawaii, rather carried on, let's say Asia, Europe, all water, then on the weekly service that comes in from Asia into Hawaii, and really bypassed the West Coast. There were a number of reasons for that. There was a joint service between three Japanese lines, led by NYK that seemed to lower their prices and they caused some pricing and rerouting opportunities for customers, and we did get off to a little bit of a slower start.

Of course, we've been patient or at least waiting for the construction activity to materialize, but we hadn't quite really accounted for the fact that in the first quarter of 2011 there were some unusual volume increases that didn't repeat themselves. And when we started looking into getting into a weaker start for the year, in fact, there were some one-time store openings and other things that inflated volume. So I think we're taking a more measured tone. I think we're still quite upbeat about the prospects for the Hawaiian economy. We just got off to a slower start than we thought.

Jack Atkins - *Stephens Inc. - Analyst*

Okay, sure, that's fair. Then just out of curiosity, I was wondering if you guys could maybe quantify, of the 4% decline in your volumes to Hawaii, could you maybe break out the rerouting issue versus the store openings and construction projects last year versus just underlying demand? I think that would be helpful.

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Sure. What I would say is, we've listed in order of significance the three items. So the largest was the rerouting. But I think it's also fair to say that about a third fell into each category, just accounting for the small difference in weighting among the three.

Jack Atkins - *Stephens Inc. - Analyst*

Okay, sure, that's fair. Then as far as the Hawaii service, what was your utilization rate in the first quarter?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Our utilization in the first quarter was in the low to mid 90%.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. And then shifting to the SSA Terminals joint venture, I didn't see this in the 10-Q, but could you maybe give us the hard dollar contribution to operating income from the joint venture in the quarter?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Yes. I'm going to ask Paul to -- or Joel to help me with that. I don't have it right at my fingertips.

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Let me get back to you and I will provide an answer to that Jack, in a minute or two before the end of the call.

Jack Atkins - *Stephens Inc. - Analyst*

Sure. Just kind of moving on to another question on SSA, I know that there's been a customer that SSA loss in the Seattle terminal that moved over to the Port of Tacoma, and I was wondering if you could maybe comment on the impact that event would potentially have on your operating income in 2012, or would you expect sort of increased throughput through the West Coast ports to help offset that?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Yes, so as you point out, we did announce in our investor day that volume moved from SSA's terminal in Seattle to another terminal in Tacoma. That's going to happen at midyear. So it hasn't actually happened yet, so we do expect the second half of the year to be somewhat compressed because of it. And our share of that loss of customer is expected to be, at the Matson level, about $1 million for the rest of 2012.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. Then do you expect part of that to be offset by maybe an increased throughput at the West Coast ports, or do you think that the overall SSA contribution would be about $1 million less?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

I think we're still looking for relatively flat year-over-year results. We do -- and there are also some cost savings opportunities that we are going to be implementing as part of this loss. If we have a relatively healthy peak season, I think that will be very helpful in potentially moderating it. We're just going to wait and see how that plays out as the year progresses. Let me -- I can also now give you the information on SSAT. For the first quarter 2011, year to date our contribution was $1.2 million, and the first quarter contribution for SSAT in the first quarter 2012 is about $800,000. So there's about a $400,000 reduction in year-over-year profitability.

Jack Atkins - *Stephens Inc. - Analyst*

Okay, thank you for that color. Last question, I'll jump back in queue, for the Logistics business could you give us an update on your efforts to back-fill the empty warehouse space in California? Just out of curiosity, just kind of wondering the progress you're making with that effort?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Sure. I can do that. I think it's fair to say at this point that our sales pipeline is much fuller than it was even three and four months ago. So we're talking to a number of prospects and, in addition, we actually are working on our sales pipeline for our facility in Savannah as well. So I think we feel much better about our prospects for filling it, exactly when these hit in the sales cycles for these warehouses can be six or nine months or a year. We are seeing a lot of interest and activity and we are working very hard to fill it up. So we are encouraged at least by the sales pipeline.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. Thank you very much.

Operator

Brendan Maiorana, Wells Fargo.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Thanks. Good morning out there. Couple of questions for Joel on the procedures. So first, on expenses, what do you think gets incurred pre and post-split out of the $20 million to $22 million?

Joel Wine - *Alexander & Baldwin, Inc. - SVP, CFO and Treasurer*

The majority of it will be, you know, pre-split, or essentially at the time of split, Brendan, and the minority of it, the vast minority of it will be after the separation.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Okay. So --

Joel Wine - *Alexander & Baldwin, Inc. - SVP, CFO and Treasurer*

And the reason for that is that, you know, 75% or more, slightly more, is essentially outside professional fees, one-time fees, audit fees, banking fees, legal fees, et cetera. And the vast majority of that will stop at the time of separation.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Got it. Okay. And those would be, I suppose, incurred just thinking about that in -- so largely incurred in the second quarter?

Joel Wine - *Alexander & Baldwin, Inc. - SVP, CFO and Treasurer*

That's what we expect.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Okay. And then question with your comments with respect to the options and the non-cash expense. Just from my understanding, if there is a -- an option out there with a strike price on ALEX shares of, say, $40 or something like that, does that option then get split into two separate options? And assuming it's -- let's say if A&B and Matson are split roughly evenly, and it's a $50 combined price, so it's $25 and $25, does that option then get split into two and it's got a strike of $20 for A&B and a strike of $20 for Matson?

Joel Wine - *Alexander & Baldwin, Inc. - SVP, CFO and Treasurer*

You could do that it way. We chose not to do it that way and take any given employee and have all of their options struck in the new company that they will be continuing on with. In our example, in our situation, the answer is no. All of your options will be -- that core embedded intrinsic value, Brendan, will not change but that will all be replaced with the appropriate number of new options with the same aggregate intrinsic value in the company they will be working for in the future. We wanted essentially all employees to have all their skin in the game going forward in the company that they would continue to work for. So that was a choice we made.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

And the intrinsic value, just so I understand, is that to suggest that then -- for them, let's say, in that one example, it's a $50 share price versus a $40 strike in ALEX, how do you allocate the new strike of the option for A&B versus Matson?

Joel Wine - *Alexander & Baldwin, Inc. - SVP, CFO and Treasurer*

So in your example you said $50 stock, $40 strike, that's what you said, so let's call that $10 of intrinsic value, right?

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Yes.

Joel Wine - *Alexander & Baldwin, Inc. - SVP, CFO and Treasurer*

Okay, so what we'll do is we'll look at the day of separation. There will essential be three data points. There will be Alexander & Baldwin, and that's closing -- the combined company closing price, and then we'll look at the when issued market for the A&B stock and the ex distribution market for the Matson stock. And you will look at each of those and you'll determine what percentage of the -- of each individual company contributed to the overall value of ALEX, literally on that one day.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Yes.

Joel Wine - *Alexander & Baldwin, Inc. - SVP, CFO and Treasurer*

And then you will be able to determine what the percentage needs to be of the new stock, and then essentially you will deduct -- let's say that equated to, as an example, A&B worth $25. You'd essentially have the $10 of intrinsic value for the A&B option will be then replaced with a new option of A&B at -- struck at $15 when the stock was determined to be at $25. So you still that have $10 intrinsic value but only be in one stock. In that example, A&B. Does that make sense?

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Yes, that makes sense. Okay, thanks. No, that's helpful. Then I had a couple of real estate questions as well, probably for Chris. First, the NOI improved sequentially from the fourth quarter by about $1 million. It didn't seem like there were a lot of movements.

I think you guys picked up that retail parcel on Oahu at the end of last year but it was pretty small. Was there anything else that drove the sequential change? And if I look at NOI for the quarter, is it fair to annualize that or do you think you have a couple of headwinds on expenses or something like that, that may cause the numbers to move back more towards the fourth quarter number?

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

Okay, first on the first question, the drivers of the sequential improvement in cash NOI from, I think, $15.2 million in the fourth quarter to $16.1 million in the first quarter, it was primarily in the retail asset class and the majority of it, just over half of it was from the non recurrence of a write-off at our Rancho Temecula property in the fourth quarter of last year. So about $600,000 write-off in the fourth quarter did not recur. The balance of

$500,000 or so, again attributable to retail primarily, and it was a combination of percentage rent collections that were favorable and other kind of first quarter true-ups, cam reconciliations and other things.

So that is sort of a segue into the next question which is, to what extent can you extrapolate the first quarter. I think that generally we feel good about the way the portfolio is performing, and I think that kind of on a normalized basis we would expect that to continue, but I would say that there are some first quarter anomalies from cam reconciliations and other things that boost profit a little bit. So I wouldn't necessarily multiply the 10.7 by 4, but I think we will have relatively good performance for the full year.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Okay, it sounds like maybe back out that 500 or so and otherwise -- but otherwise pretty clean? Then the 79-acre non-core parcel, I think that was on Maui. Can you give us a sense of where pricing fell for that sale?

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

I have to admit, I've forgotten the pricing on that. Brendan, I think I'm going to have to get back to you on that.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

No problem.

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

Rather than just throw it out from memory.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Sure. No problem. Last question for me. So it sounds like Waihonua has continued to progress well, and you guys expect to start construction on that later this year. The Kakaako site that you have under option with Kamehameha, do you think that there is something that -- is that the next one to move forward given what sounds like an improving condo market on Oahu?

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

That's a great question, Brendan, and one we're spending a lot of time on right now. The good news is our success in Waihonua is clearly indicating that there's a market there for the product. And we feel great about Waihonua. The situation in Kakaako right now is that there are over a dozen sites that are potential sites over the next, call it 5 to 10 years, for condo in Kakaako. Not that they will all be developed certainly.

The demand probably wouldn't be there for all of them, but the point is there's going to be a fair amount of competition. So what we have to do is figure out both the depth of the market at various price points and determine how quickly we could get that project to market. We actually feel fairly good that we could get that product to market shortly after Waihonua and still be toward the front of this next wave of condos, and so we're pretty optimistic about it. But those are the questions we are going to be asking, we're going do some more market studies and evaluate that before we're at a point where we have to take down the land. Fortunately the way we've structured the option agreement, we have the luxury of that time to do that further evaluation.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

And then, sorry, just a follow-up. Is the agreement -- would you guys then be, under the way the option agreement is struck, would you then have 100% ownership and economic interest in the site after you take the land down, or would you be a partner with Kamehameha?

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

Just in general terms, I don't want to give any specific deal terms, but we would own the land after we take it down, though there would be a modest profit participation in the way we've structured the deal. There would be modest profit participation for Kamehameha Schools in the deal.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Okay. And then do you guys think that the product type, the price point would be higher likely than what you're trying to do at Waihonua, or do you think it's more likely to be the mid-price kind of product?

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

I think it's more likely to be more mid-price. Not significantly below the Waihonua price points but modestly so. Probably smaller unit sizes and comparable to slightly lower price per square foot.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Okay, great, thank you.

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

And Brendan, the pricing on that parcel was $44,000 an acre. That 79-acre parcel that you asked about.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Sure. Was there water on that site or was it non-water?

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

I'm pretty sure there was no water on that site. I'm sure there was no water on that site.

Brendan Maiorana - *Wells Fargo Securities, LLC - Analyst*

Okay, great, thanks.

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

Thanks.

Operator

Ian Zaffino, Oppenheimer.

Todd Brockett - *Oppenheimer & Co. - Analyst*

Hey guys, this is Todd on for Ian. Can you guys talk a little bit more about the routing of the non-US cargo? Is the seasonality there similar to the regular business? Is that kind of a, call it 1%, 1.5% drag on volumes as we go through the year?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

It's a good question. I don't think it's fully played out, Todd. But what we do know is that, for example, for European origin cargo that's bound for Hawaii, let's say beer, European beer, for example, which is a major moving commodity into Hawaii, what happened was the Asia Europe rates, that is the Europe to Asia leg, was significantly lower than it had been historically if you follow the trade press and the international carriers were losing a significant amount of money. They lost over $6 billion in part because of their Asia Europe deployments. And then so the rates from Europe to Asia were very low, then on top of that, because of the arrangement that NYK had with two other Japanese carriers, there started being a significant amount of pricing pressure on the Asia into Hawaii leg, and the freight rates dropped by, we understand, several thousand dollars a container.

And just last month, or in the last quarter, we've seen Asia-Europe freight rates climb dramatically. We've also seen that the arrangement that NYK had with the other two Japanese carriers has ended so that NYK will be again the only carrier from Asia into Hawaii. We think both of those things and the implications on those freight rates will put at least some of that cargo back into play over the west coast as a routing where historically it had wanted to go. So it's hard to say whether or not it happens over a quarter but we do think that cargo -- some of that cargo that shifted will shift back over the west coast routing.

Todd Brockett - *Oppenheimer & Co. - Analyst*

Is that what you guys were referring to when you talked about volume headwinds in the second quarter?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Yes. Exactly. That's one of the elements. And just in general there's some general softness in the market that we hope firms up, and as I said, we continue to be quite encouraged by the direction of the Hawaiian economy. As we've said several times before, it's great to see tourist arrivals, but construction activity drives a lot of incremental growth. Tourist arrivals are great. They're a great leading economic indicator, they provide lots of jobs and tax receipts and other benefits, and perhaps are a leading indicator for hotel owners and other owners to renew and expand properties over time. So it's all good. It just hasn't translated into volumes yet.

Todd Brockett - *Oppenheimer & Co. - Analyst*

Sure, and then just a follow-up on that non-core acre parcel that you guys sold for $44,000. Can you give me any other color on where on Maui it was located or was it ag land?

Chris Benjamin - *Alexander & Baldwin, Inc. - President of A&B Land Group*

Good question. This was adjacent to but -- adjacent to our sugar plantation, but it is land that was not suitable for farming. It's kind of a little bit of a remnant parcel that was kind of, for us anyway, awkwardly configured. Didn't have ready access to water. So I would describe it as, again, some of our non-core land that wasn't utilized in sugar. Wasn't in the up-country area but it was just outside the footprint of the plantation, sort of as you're starting to go up the hill towards Kula if you are familiar with Maui.

Todd Brockett - *Oppenheimer & Co. - Analyst*

Thanks a lot, guys.

Operator

Steve O'Hara, Sidoti and Company.

Steve O'Hara - *Sidoti & Company - Analyst*

Good morning. Could you just talk about maybe your capacity plans? I thought you had laid them out in terms of the shipping business on the -- at the investor day. I'm just wondering if that's changed at all, then maybe -- I don't know if you touched on this? If you, did I apologize, but what you're seeing in terms of competitive capacity both on the China lanes and then in Hawaii as well.

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Sure. Yes, I can answer part of that, and if I only answer part of it, then you can redirect my question, but our capacity plans, as we laid them out in our deployments in our investor day remains unchanged. That is, we continue to expect to be in a 9-ship deployment, although periods of drydocks we will add a 10th ship, but we are effectively in a 9-ship deployment as was outlined in our route map. As it relates -- and we continue to expect to operate our Hawaii fleet at the low to mid 90% utilization and we continue to be out of China effectively full every week. We have a wait list, if you will, or a roll pool, as we call it, and we're limiting bookings every week by virtue of our customer commitments and our yield management processes that are in place.

With regard to the overall market in China, we had seen relatively good discipline from the other international ocean carriers in trying to match capacity and demand, and I think as a result, overall utilization in the transpacific trade is at around 90%, which is relatively good. What remains unclear, there are several carriers who have announced some expansion of capacity as we get into the busier time of year, and the question will be, given that a number of surplus ships are laid up or idle or available, will the capacity management that has served the international ocean carriers well in the first quarter be undermined by an over introduction of capacity. In part it will be dependent on carrier behavior. In part, will be dependent on the underlying strength in the markets.

So there continues to be some uncertainty as to whether the carriers will undermine their own efforts and rate stability, but if they stay disciplined, then there could be some upside to our forecast and to the -- but we're expecting kind of a mixed result. That's why we see only modest improvement year-over-year in our China trade in terms of an economic result. I don't know if I've answered your question and five others or not, but you can let me know if that answered your question.

Steve O'Hara - *Sidoti & Company - Analyst*

That's fine. Just so I'm clear on the guidance, or maybe the thoughts on Matson, year-over-year you look for a modest improvement. Is that what I should take out of this?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

I think what we said was, we see improvements. We kind of gave land-specific information. We expect improvements year-over-year in China, modest. We expect strong improvement year-over-year in -- strong improvements year-over-year in Guam for that period of time in which we're the only carrier, and we're expecting flat to modestly down in Hawaii, and our Logistics business we expect flat to a modest improvement. So I don't think we've tried to string all those together but I think we're expecting to see a mixed picture where Hawaii is a lagger and the other trades are flat to up in varying degrees. That's kind of the way we expect the year to shake out.

Steve O'Hara - *Sidoti & Company - Analyst*

Okay, great. And then one last one. In general, when you expect to see an improvement in construction and maybe you expect to see improving GDP, state GDP, how does this cycle play out? Is this typical or is this a little bit different than the norm?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

I'll answer part of it and other people who are here who also very closely follow the Hawaiian economy can comment, but, from our perspective what we're looking for, and I think what's important to us is to focus on the permitting activity. And of course, the permitting activity is a good leading indicator for eventual construction. And we do see improvements in the permitting process, but, of course, there is some time lag between the permitting and getting the financing together to the actual construction and translation into containerized freight volumes that we care about.

So I do think we see positive signs. We see positive signs on the relocation of the Marines, those additional Marines to Hawaii. Stan spoke about some macro indicators for Hawaii which all continue to look very positive. And so the question is just how quickly do those translate into meaningful increases in westbound container volumes, and our view is that it's not going to be a meaningful move until 2013. 2012 will be a lot of permitting, some improvement, but it will be getting more traction in 2013.

Steve O'Hara - *Sidoti & Company - Analyst*

And then -- hello?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Yes.

Steve O'Hara - *Sidoti & Company - Analyst*

And then I guess -- is this, do you see this as typical or atypical?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

If you look back the last 30 or 40 years, we've seen economic cycles. Typically what will happen is that we'll see multi-year modest recovery, which is typical of a Hawaii recovery, if you can believe past cycles. We're at the early stages of a recovery and we're, our belief based on historical history is that these tend to be multi-year modest recoveries is the way we've described them. I don't see any reason at this point to believe that they would be anything but that.

Steve O'Hara - *Sidoti & Company - Analyst*

Okay. Thank you.

Operator

Jack Atkins, Stephens.

Jack Atkins - *Stephens Inc. - Analyst*

Right, just a couple quick follow-ups here for you, Matt. I know you talked about the bidding season and the transpacific lane, and you said that rates -- contract rates were up modestly year-over-year, and they weren't as significant as the spot rate increases that we've seen. I was wondering if maybe you could comment on sort of the contract rate increase. Is it up in the mid single-digits, up in the low double-digits? Just any sort of color on that I think would be helpful.

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

yes, I would say for the contracted rates, if you carve out changes in variable bunker surcharges which move with bunker markets, there were effectively no increases, it was year-over-year flat on the contracted freight.

Jack Atkins - *Stephens Inc. - Analyst*

Okay.

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

The actual contracted freights are up because the bunker indices are up and the variable pricing mechanisms are up. That was a disappointment. But the meaningful increases we got were on the non contracted freight or the NVO, or freight forwarder segment where we have seen fairly healthy increases in that part of the business.

Jack Atkins - *Stephens Inc. - Analyst*

Sure. Given that you have essentially 100% capacity utilization on that service, are you finding it more successful than typical in your efforts to pass through the increases in bunker fuel costs that we've seen over the last several months?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Well, I think we have been effective in getting bunker surcharge mechanisms in effectively all of our contracts. That is a process that we've been at for the last few years, and on the margin, we were probably modestly successful. Let's just say, for example, last year we might have been 90% of our contracts would have had bunker surcharge mechanisms, and now we're at 98% or something. On the margin there is some further improvement in putting in place bunker surcharge mechanisms. I think that's true for the trade in total. So that's been a plus, and we certainly have moved to that, the vast majority of the trade using those bunker pricing mechanisms. So on the margin I think it has been a plus.

Jack Atkins - *Stephens Inc. - Analyst*

Sure, and when you talk about the rate being relatively consistent going forward throughout 2012 with the rate that you saw in the first quarter, on your China service, was that -- the $1,900 a box spot rate that we saw, or that we've seen over the last month or so, is that a good sort of baseline assumption to use for the base spot rate? Or is it a little bit above or below that?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Yes, so what I would do, Jack, without giving you a specific number for competitive reasons, we don't want to share that. We do enjoy a significant premium over the spot rates and over the contract rates in the trade, given our cargo and service advantages. What I would say is, if you broke our book of business down into 50% spot, you could track against the spot indices plus a premium for that part of the business. Then on the annual contracted freight, we do enjoy a premium, both in the commodity mix and for the same commodities in our service, and we've kind of talked about that $300 to $500 premium over time. I would say now post May 1, that the spot rates are above, for the market that is, not for Matson, are above the contracted rates by a few hundred dollars.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. And you would expect the strength that we've seen throughout the first quarter with increasing rates to, I guess, be maintained as we move throughout 2012. Is that the way I should take your commentary from your prepared comments?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Yes, you should. Now, of course, there continues to be uncertainty as I mentioned in another answer, which is to the extent that carriers introduce significantly more capacity than the market can take, of course that would have a downward effect on pricing. We don't expect that to happen. And to the extent that we see significant increases in demand, that could take the rates up, we also don't expect that to happen. But those things could happen, but that's the background on our context for relative stability from the first quarter.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. Then the last question from me, Matt, could you give us an update on the 53 foot box program? I know you mentioned it in your prepared comments, but could you just talk about sort of the progress that you're making getting that program off the ground and when should that begin to contribute? I know it's a small program at first but when should that begin to contribute to the Logistics segment in 2012?

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Sure, yes. Our initial program is for 200 53 foot boxes. Those boxes are in the process or nearly being completed their construction. They're on their way and will be in service at the beginning of the third quarter of this year. And the numbers of 200 boxes are relatively small, and as you know, our goal is to prove out the concept in terms of its utilization, the numbers of turns, the lanes in which we'll operate them, the number of empty legs and so on and so forth. And once we prove that out, I think we'll -- to the extent that it has a satisfactory outcome, I think it will drive earnings more meaningfully in 2013.

So I see a modest impact in the financial results in the second half of 2012. But to the extent that we're happy with the pilot of 200 boxes we would certainly look to expand that into the thousands, if in fact, the pilot is successful and when we do that it will have a more meaningful impact on the results of the Logistics sector.

Jack Atkins - *Stephens Inc. - Analyst*

Okay. Great. Thanks for the time guys.

Matt Cox - *Alexander & Baldwin, Inc. - President, Matson Navigation Company*

Sure.

Operator

Ladies and gentlemen, this concludes the question-and-answer session for today's call. I would now like to hand the call over to Ms. Suzy Hollinger for closing remarks.

Suzy Hollinger - *Alexander & Baldwin, Inc. - Director of IR*

Thanks everyone for joining our call today. If you have any further questions please contact me at 808-525-8422. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect.

Editor

Company Note

Refer to the Company's 8-K filing on May 10, 2012, which corrects the total sales price for the 79 acres sold during the quarter. The sales price was approximately $1.1 million, or $14,000 per acre.

In addition, in response to a question raised during the call regarding the treatment of options in connection with the Company's separation, the Company notes that further information regarding the treatment of stock options is provided on page 46 of A & B II, Inc.'s Amendment No. 1 to Form 10, which was filed with the SEC on May 4, 2012. Upon separation, stock options of the separated companies will be adjusted to increase the number of shares of new common stock subject to each option and to reduce the exercise price payable per share so as to preserve the intrinsic value that existed with respect to the option immediately prior to the separation.