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PRESENTATION

Operator

Good day, and welcome to the Fourth Quarter and Full-Year 2022 Alexander & Baldwin Earnings Conference Call. (Operator Instructions) Please also note, this event is being recorded. I would now like to turn the conference over to Steve Swett. Please go ahead.

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

Thank you. Aloha, and welcome to our call to discuss Alexander & Baldwin's fourth quarter and full-year 2022 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 Chief Financial Officer, Clayton Chun.

Before we commence, please note that statements in this call and presentation that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding possible or assumed future results of operations, business strategies, growth opportunities and competitive positions. 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, 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 in this call and 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. Included in the appendix of today's presentation slides is a statement regarding our use of these non-GAAP measures and reconciliations. Slides from this presentation are available for download at the Investors section of our website at www.alexanderbaldwin.com.

Chris will open up today's presentation with a strategic update. He will then turn the presentation over to Lance for an update on real estate operations, and Clayton will discuss financial matters. Chris will return for some closing remarks, whereupon we will open up the call for your questions.

With that, let me turn the call over to Chris.

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

Thanks, Steve, and good afternoon to our listeners. The fourth quarter was another excellent quarter for A&B's commercial real estate business. Our high-quality retail, industrial and ground lease properties again produced strong results. We also booked a solid volume of land sales in the quarter.

Perhaps most importantly, we have reclassified Grace as a discontinued operation in light of our commitment to exit the business. So while that process is not yet complete, the final major step in our strategic simplification is advancing, and our financials will henceforth reflect our new simplified business model.

Our outstanding fourth quarter continued the trends we had seen earlier in the year. Lance and Clayton will provide more details on our fourth quarter performance, but let me summarize our results for the full-year. Commercial real estate revenue grew 7.5% year-over-year, and our Same-Store NOI increased by 6%. Core FFO increased 18.3% to $82.2 million, and core FFO per share was up 17.7% to $1.13 per share, which exceeded the high end of our twice-increased guidance range.

During the year, we signed 261 new and renewal leases, representing 778,000 square feet and achieved blended leasing spreads of 4.4%. We ended the year with leased occupancy of 95%, up 70 basis points from the end of 2021, and economic occupancy was 93.6%, up 140 basis points. In land operations, we generated adjusted EBITDA of $67 million from the sale of approximately 20,200 acres of noncore land and 4.9 acres at Maui Business Park.

We raised our quarterly cash dividend 3 times during the year from $0.18 per share at the end of 2021 to the current $0.22 per share level. And our balance sheet remains strong and poised to support commercial real estate growth with a debt-to-total market capitalization ratio of 25.8% at year-end and a net debt to trailing 12 months consolidated adjusted EBITDA of 2.7x. These results reflect the strength of our portfolio with growth driven primarily by our retail segment and supported by the ongoing improvement in Hawaii's economy.

Domestic visitor arrivals exceeded pre-pandemic levels for each month of 2022. Additionally, the gradual return of international visitors, now back to approximately 50% of 2019 levels, will further aid Hawaii's economy. As we've said before, our portfolio is generally community-based and less dependent on tourist activity, but the resurgence in Hawaii tourism and a robust construction industry continue to support Hawaii's strong economy with the state's 3.2% unemployment rate in December 2022 below the national unemployment rate of 3.5%.

With regard to marketing Grace Pacific for sale, market conditions, including the challenging debt markets, have not helped the process. But we remain engaged and focused on achieving a disposition this year. The impairment we recognized in the fourth quarter related to our transfer of Grace to discontinued operations gives us flexibility to achieve the simplification goal we have long sought. I continue to believe in the business and in the management team that has returned it to profitability, but the time has come to part with Grace as it simply doesn't fit our commercial real estate model.

We continued to strengthen our ESG programs in 2022 and enhanced our disclosures to shareholders, including a well-received third annual corporate responsibility report. Our first rooftop photovoltaic system was completed in late 2022 at Pearl Highlands Center, and we are advancing additional renewable energy generation projects across the portfolio in support of our goal of owning, operating and managing sustainable properties.

Finally, with regard to the leadership transition we recently announced, I want to congratulate Lance on his promotion to President as of January 1 and CEO as of July 1. I've had the pleasure of working with Lance for nearly 19 years. He is an extremely talented and experienced real estate executive, and I cannot think of a better person to run A&B as a Hawaii commercial real estate company. While we transition, I will remain focused on completing our simplification efforts, while Lance leads the team in running and growing the commercial real estate operations.

Now I'll turn the call over to Lance. Lance?

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

Thank you for your kind words, Chris, and Aloha, everyone. Beginning with operations, our CRE portfolio continued to perform well in the fourth quarter. CRE revenue was up 4.8% in the fourth quarter compared to last year. NOI was up 1.3% year-over-year, and Same-Store NOI was up 1.1%.

In the fourth quarter of 2022, there was approximately $500,000 of prior period reserve recovery compared to $900,000 in the same quarter of 2021. This $400,000 difference represents about 140 basis points of NOI growth. Overall leased occupancy and Same-Store leased occupancy at year-end were 95%, an increase of 70 basis points from 12 months earlier. Same-Store retail leased occupancy was up 70 basis points to 93.8%, and Same-Store industrial leased occupancy was 98.3%, up 140 basis points from the fourth quarter of 2021.

Economic occupancy at quarter-end was 93.6%, up 140 basis points from 12 months earlier. Retail economic occupancy was up 180 basis points to 91.7%, and industrial economic occupancy was up 120 basis points to 98.2%. We executed 61 leases for approximately 130,000 square feet during the fourth quarter and achieved spreads of 3.2% for new leases and 5.7% on renewal leases. This activity included 15 leases related to properties located in Kailua, including Aikahi Park Shopping Center, totaling approximately 23,000 square feet and 6 leases at Kaka'ako Commerce Center, totaling approximately 21,000 square feet.

We are pleased with our portfolio performance following another robust quarter of leasing that resulted in 95% overall leased occupancy, and we have a solid pipeline of active deals and prospects. Our well-located properties are experiencing elevated foot traffic, and most of our tenants are reporting higher sales, resulting in percentage rents significantly greater than expected. This, in addition to higher base rents, drove our strong fourth quarter results rather than rent reversals.

With regard to growth, our investment team is pursuing acquisition opportunities that are complementary to our current portfolio. While transaction activity has slowed due to changes in the financial markets and interest rates, we remain creative and disciplined in our approach and believe our deep market knowledge, relationships and ample liquidity will help us to unlock opportunities. In the meantime, we continue to pursue internal growth opportunities such as development or redevelopment, where we can better control investment timing and yields. The significant refresh of Manoa Marketplace is progressing to improve the visitor experience at this well-located neighborhood center while incorporating sustainable design and building elements, including LED lighting, water-efficient fixtures and EV parking stalls.

Turning to our land sales. During the fourth quarter, we sold approximately 1,100 acres of noncore land and 1.1 acres at Maui Business Park for total proceeds of approximately $20 million. For the quarter, we recorded adjusted EBITDA of $10.7 million within our Land Operations segment.

I'll now turn the call over to Clayton for financial details. Clayton?

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

Thanks, Lance, and aloha, everyone. Starting with our financial results. For the fourth quarter, we reported income from continuing operations available to shareholders of $16.2 million or $0.22 per diluted share. Fourth quarter FFO was $25.3 million or $0.35 per diluted share. Core FFO was $22.2 million or $0.31 per diluted share. As a note, each of these metrics for 2022 benefited from collections of previously reserved amounts of approximately $500,000 in the fourth quarter of 2022 compared to $900,000 in the fourth quarter of 2021.

For the full-year 2022, we reported income from continuing operations available to shareholders of $36.9 million or $0.50 per diluted share. FFO for the full-year was $73.4 million or $1.01 per diluted share, and core FFO was $82.2 million or $1.13 per diluted share. For additional details on our results, including comparisons to 2021, please see our earnings release and supplemental information package.

Let me now turn to our Commercial Real Estate segment. For the fourth quarter, CRE revenues increased 4.8% or $2.2 million over the prior year quarter to $48.4 million. The increase from the year-ago quarter reflects the strength of our tenants and portfolio driven by higher base rent and the impact of removing certain tenants from cash basis designation. CRE NOI increased by 1.3% or $400,000 to $29.2 million compared to the same period last year.

Our Land Operations segment generated adjusted EBITDA of $10.7 million in the fourth quarter of 2022. The decrease in year-over-year adjusted EBITDA was partly attributable to lower volume sales in the fourth quarter of 2022 as compared to the prior year quarter. For the fourth quarter of 2022, G&A expenses were $8.2 million compared to $10.7 million in the fourth quarter of 2021 and in line with expectations.

As Chris noted, we moved Grace Pacific into discontinued operations during the fourth quarter due to our intent to complete a disposition this year, which triggered an impairment of $89.8 million.

Turning to our balance sheet and liquidity metrics. At December 31, 2022, total outstanding debt was $472.2 million and we had total liquidity of $520 million, including approximately $33 million of cash and $487 million available on our revolving line of credit facility.

During the fourth quarter, we entered into 2 forward starting interest rate swaps that provide A&B with a fixed blended interest rate of 4.86% on $130 million of future financing. The $130 million of financing is expected to be negotiated towards the end of the year and will be used to refinance existing debt that is scheduled to mature in 2024.

At quarter end, net debt to trailing 12 months consolidated adjusted EBITDA was 2.7x, whereas net debt to trailing 12 months core adjusted EBITDA, which excludes land operations and Grace, was 4.7x. Our debt-to-total market capitalization stood at 25.8% at year-end. You'll note, we repurchased approximately 81,000 shares of stock during the quarter at an average price of $16.95 per share. As we have stated before, our share repurchase plan provides an additional capital allocation tool, which we may use from time to time. With respect to our dividend, we paid a fourth quarter dividend of $0.22 per share on January 6, and our Board recently declared a first quarter 2023 dividend of $0.22 per share.

Finally, turning to guidance. We are providing initial full-year 2023 guidance with core FFO within a range of $1.08 to $1.13 per share. This range is supported by our outlook for CRE Same-Store NOI growth within a range of 2% to 4% and CRE Same-Store NOI growth, excluding prior year reserve reversals, within a range of 5% to 6.5%. I should mention that our 2023 guidance is impacted by a couple of factors that are nonrecurring in nature.

First, our 2022 results included reversals of prior year reserves due to collections that are about $2.6 million higher than our expectations for 2023. Second, our guidance incorporates approximately $2 million of G&A-related expenses due to the management transition. Combined, these items totaling approximately $4.6 million impact our core FFO guidance by about $0.07 per share and our Same-Store NOI guidance by approximately 250 basis points.

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

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

Thanks, Clayton. The fourth quarter again demonstrated the quality of our commercial real estate portfolio with high occupancy and solid growth. We remain active in pursuit of growth opportunities that deepen our presence in the Hawaii market and that are complementary to our existing portfolio.

As we look ahead, our business focus, strong balance sheet and deep Hawaii ties are strengths that will fuel our growth and success as a commercial real estate company. It has been a long transformation process and the changes have been many from the 2016 shutdown of our sugar plantation to the 2018 sale of the underlying land to the 2021 sale of Kukui'ula, we have systematically transformed a 153-year-old diversified conglomerate into a focused commercial real estate company.

But more important than anything else we've done, we have built, in my opinion, the best real estate team in Hawaii and are positioning them with the resources to take the business to the next level. We will be hosting an Investor Day in March. The details are on the screen. And I hope you can make it to Honolulu not just to see our amazing properties, but to meet our amazing team.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question will be from Alexander Goldfarb from Piper Sandler.

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

First, Chris, congrats on your final earnings call, and I guess this means no more NAREITs. So Lance, unfortunately, looks like you're going to have to endure NAREITs for the next few years, so good luck. So 2 questions here. First, appreciate the exit on Grace. Appreciate -- not appreciate the impairment obviously, topic for the prior management Board that approved Grace but at least you guys are sort of resolving to move on.

From a reinvestment proceeds basis, it doesn't seem like there's much to reinvest if you wrote off another $90 million. So from a recycling perspective, is it safe to say there's not much to recycle? Or is it a difference of GAAP treatment versus the actual cash proceeds that you anticipate, in which case there is actually a healthy amount that can be cash recycled into the ongoing business?

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

Thanks, Alex. This is Chris. Let me respond. First of all, just to clarify, I'm around until June 30, so one more earnings call, one more NAREIT and so -- and we look forward to seeing you in March for our Investor Day. So you're not done with me yet.

But with respect to Grace, there's not a whole lot I can add partly because we're still in the midst of the process. But I would say that while it's not insignificant cash that I -- we would expect to be able to redeploy, I'd say it's -- the ballpark is probably consistent with what you're thinking. It's not going to be a huge needle mover. But it's going to be some additional delevering and strengthening of our balance sheet and strengthening of our position to grow the company.

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

Okay. And then for the guidance for this coming year, you guys have core FFO, $1.08 to $1.13. So a two-part question here. One, given the tremendous cleanup that you've just done, curious why you're continuing to report core and what the deltas are between core and NAREIT. And I would think, as you transition to a pure play, you'd want to just simply report NAREIT FFO to present a clean story that there's nothing sort of legacy in there.

The second is, is that $1.08 to $1.13 a good number. Or are there some items, whether it's executive transition costs or other sort of odd items that are in the numbers such that $1.08 to $1.13 is not sort of the post-Grace sort of new A&B run rate?

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

Yes. So Alex, let me start, and then I'll kick it to Clayton. This is Chris. So first of all, with respect to core FFO versus FFO, you're absolutely right that, from an operating business perspective, there is not a lot of non-core activity. But we do still have some legacy obligations that we are working through. These are post-closing obligations on prior sales and things like that, that could drive some economics, frankly, either way because they're generally fully reserved. And if we can resolve some of them at better values, that could be a positive. And then there could be some things that are drags.

So I think until we get past the end of the simplification process, there is still some benefit in disclosing both. And I'll let Clayton comment on any more specifics around the difference between the 2.

And as far as the core FFO number, the guidance that we provided, that is a -- you used the word good. I would say that is a clean sort of net number that is after consideration of all one-timers that we anticipate. So the management transition, et cetera, we think that, that is a -- that should be consistent with actual outcome. You wouldn't have to further adjust that. So Clayton?

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

Right. So if I could just add a little more color. So the main distinction between core FFO and FFO is FFO is taking consolidated A&B, and so that is inclusive of land operations and -- as well as all aspects of the business. And so as we have gone through the simplification process, our intent was to provide core FFO, which is focusing on our core business, commercial real estate.

So for comparative purposes, it's still meaningful for us to focus on core FFO, but with the simplification largely behind us once Grace is also behind us, we then will be at a point where you will see a convergence of core FFO and FFO, and our focus from that point really will be on FFO. So we still have some noise in the past for comparative reasons with FFO, and so that's why we focused on core FFO. Hopefully, that...

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

So Clayton, so let me just -- what is the delta between NAREIT FFO and core FFO? Is it like $0.10, $0.20?

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

So we had -- for the full year, it was about $9 million between core FFO and FFO. And from a per share basis, I think that translates to -- is it about -- so in any event, it's about $9 million and so the delta really largely reflecting the impact of the noncore business.

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

So it's $9 million for '23 as well? Or that was -- you were only referring to '22? I'm just trying to understand how much...

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

Yes, correct. So I'm referring to 2022. For 2023, we're expecting it to be a smaller delta, and I think you're looking at maybe $4 million or so.

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

Okay. Okay. And that includes the executive transition.

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

That includes the executive transition. So for purposes of your question around the guidance, we did have those 2 significant factors that I had referenced, which was the G&A impact of about $2 million. Additionally, you had the impact of the reserve reversals of $2.6 million that's embedded in our guidance for core FFO.

Operator

And the next question is from Mitch Germain from JMP Securities.

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

Congrats to Lance and you, Chris, as well on the next phase.

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

Thanks, Mitch.

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

I'm curious about the retail sector, and we're hearing about some tenants, whether it be bankruptcies or store closings begin to materialize given some of the economic headwinds. And I'm curious, given the supply-constrained nature of the markets that you own in, does some of that creep in? Or are you able to avoid some of those headwinds?

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

Mitch, this is Lance, and thanks for the congratulatory remarks. I would say our portfolio is more needs-based, and as we've talked about in the past, our portfolio also doesn't have as much exposure to some of the mainland tenants that are typically identified for watch list. And so while we don't identify a watch list, I would say we have lower exposure generally to those.

From a bankruptcy perspective, really the only sort of risk tenant in our portfolio on a national basis is Regal. We do have them at one center, and we continue to work with them and expect that we will be able to retain them as a tenant there.

I'd say on a local/regional basis, we are not immune to the economic headwinds. We did survey tenants in the fourth quarter. We have conversations with them often. We are hearing about labor -- increased labor costs and other pressures on margin. I did, in my prepared remarks, speak to increased sales that we are seeing just on the revenue side. And so we continue to see top line growth for a lot of our tenants but recognize that there could be some challenges just with costs. And so I would say that we're no different, but we certainly wouldn't expect any increased risk within the portfolio. If anything, I would say just the opposite.

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

Great. And just one more for me in terms of capital allocation. Obviously, retail industrial, even ground. I'm curious about kind of where you see a priority with regards to how you consider the 2 -- the main sectors or the main investment options, even stock at this point. Obviously, you're active on the buyback. But what -- kind of how do you consider capital allocation in terms of your view of like priorities going forward?

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

Yes. So from a capital allocation perspective, we -- our approach is we want to be disciplined. And so although our objective is to grow the commercial real estate portfolio, we're going to do it in a disciplined way, and we're going to make sure that as we evaluate our investment options that we're deploying it towards opportunities that will be accretive.

And so whether it's retail investment opportunities, industrial, ground leases, I would say that we're -- those are all of our food groups from an asset class perspective that we are seeking to expand. You had mentioned the fact that we did have some share repurchases, and we did have a modest amount of repurchases during the quarter.

And so from the perspective of evaluating where we could place our cash, we wanted to make sure that, that was understood, that, that is a tool that's available to us. And so we are going to be just judicious in how we approach capital allocation.

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

And Mitch, I would just add, at the asset level, 2/3 of our NOI is generated from retail. We are the market leader in that space in terms of largest landlord at 22%. But we still like the asset class a lot, and so we look to grow there. Similarly, we have an appetite for increased growth within industrial and the ground lease sector. And so it's really more opportunistic. And then to Clayton's point, just thinking about disciplined approach, risk-adjusted returns and making decisions based on that basis.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Steve Swett for any closing remarks.

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

Thank you, Chad, 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, sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
