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ALEX.N - Q2 2024 Alexander & Baldwin Inc (Hawaii) Earnings Call

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**Mitch Germain** *Citizens JMP - Analyst*

**Brendan McCarthy** *Sidoti & Company, LLC - Analyst*

## PRESENTATION

### Operator

Good day and welcome to the second quarter 2024 Alexander & Baldwin earnings conference call. (Operator Instructions) Please be advised that this call is being recorded today 25 of July 2024.

I would now like to hand the conference over to Brandon Myers, Investments Manager. Please go ahead.

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### Brandon Myers - *Alexander & Baldwin Inc (Hawaii) - Investments Manager*

Thank you, operator. Aloha and welcome to Alexander & Baldwin's Second Quarter 2024 earnings conference call. My name is Brandon Myers, and I'm the Manager on the A&B investment team. With me today are A&B's Chief Executive Officer, Lance Parker, and Chief Financial Officer, Clayton Chun.

During our call, please refer to our second quarter 2024 supplemental information available on our website at [investor.alexanderbaldwin.com/supplements](http://investor.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 of 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 non-core 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 statement regarding the use of these non-GAAP measures and reconciliations included in our 2024 second quarter supplemental information materials.

Lance will start 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.

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Thank you, Brandon. Great job on the introduction and congratulations again on closing the land sale that will mention later in the call. Everyone joining us, aloha. Throughout this year, our team has focused on four objectives. First is operational excellence, which includes providing the best commercial real estate platform that enables our tenants to thrive and in turn will create results for our shareholders.

Second is to grow our commercial real estate portfolio through internal development and external investment opportunities. Third is to maintain a strong and flexible balance sheet to support that growth. And last is to further streamline our business and cost structure.

With help of employees like Brandon, I am happy to report that we have made progress in each area, and we are raising our guidance to reflect our year-to-date results and improved outlook for the year. Clayton will discuss guidance in more detail on our call. But first, let me share some highlights from the quarter.

Starting with our portfolio, total NOI grew by 1.1%, same-store NOI grew by 0.9%, and same-store NOI, excluding collections of prior year reserves grew 1.7%. As we indicated on our last call, we expect our quarterly results to fluctuate and this quarter was an example of that.

NOI growth was impacted by the renewal of the Windward City Shopping Center ground lease during the second quarter last year, which provided an ABR increase of \$1.1 million. We continue to have a positive outlook on the leasing environment in Hawaii and executed 47 leases in our improved property portfolio and achieved blended spreads of 7.3% on a comparable basis.

For same-store leased occupancy was 94.8%, 50 basis points lower than the same period last year, due primarily to a move out in the first quarter of 2024. Same-store economic occupancy at quarter end was 93.7%, up 50 basis points from the same period last year and up 40 basis points from last quarter.

Turning to internal growth, we are focused on unlocking value within our portfolio. Pre-construction work has progressed at our industrial build to suit at Maui Business Park. We expect construction to begin in early 2025 and anticipate \$1 million of additional ABR when it becomes economic late next year. We also have five photovoltaic projects in various stages of development.

Combined, these projects are expected to add between \$400,000 and \$600,000 of incremental NOI as they come online in the next 18 months. In addition to these internal opportunities, I'm encouraged by the volume of investments we are seeing externally. Although pricing remains challenged with wide bid-ask spreads, we will be opportunistic with capital recycling to make accretive acquisitions.

Clayton will speak to the strength of our balance sheet, so let me provide an update on our streamlining efforts. We ended the quarter under contract to sell 81 acres of non-core land. The sale closed in July at a price of \$10.5 million and enables us to continue improving our cost structure going forward.

In addition, to these results, our improved outlook is also supported by other indicators. The unemployment rate in Hawaii at the end of June was 2.9% compared to the national average of 4.1%. And although May year-to-date visitor arrivals were down 4.1%, primarily to the lingering impact of the Maui wildfires foot traffic at our retail centers grew by 3.3%.

With that, I'll turn the call over to Clayton. Clayton?

**Clayton Chun** - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Thanks, Lance, and aloha, everyone. Starting with our consolidated metrics for the second quarter. Net income available to shareholders was \$9.1 million, or \$0.13 per diluted share. Income from continuing operations available to shareholders was \$11.7 million or \$0.16 per diluted share, up 8% from last year.

Loss from discontinued operations was \$2.6 million, or \$0.03 per diluted share, reflecting the resolution of a liability related to our legacy operations. Total company FFO was \$20.6 million or \$0.28 per diluted share as compared to \$19.8 million or \$0.27 per diluted share in the same quarter last year.

Included within total company FFO was \$0.28 per share of CRE and corporate related FFO, which effectively comprise the entirety of our total company FFO for the quarter. In comparison, our CRE and corporate related FFO for the second quarter of 2023 was \$0.25 per share and a \$0.03 or 12% increase from the prior year quarter was due primarily to lower G&A. FFO related to Land Operations was negligible during the second quarter of 2024 as compared to \$0.02 per share in the same quarter last year when the segment benefited from a \$3.2 million land sale.

AFFO was \$16.9 million or \$0.23 per diluted share for the second quarter of 2024. This compares to \$18 million or \$0.25 per diluted share in the same period last year. The decrease in year-over-year AFFO was due primarily to higher maintenance CapEx spend and reflects timing differences. Each of these metrics for the second quarter of 2024 benefited from collections of prior year reserves of approximately \$400,000 or [\$0.01] per diluted share versus \$600,000 in the second quarter of 2023.

G&A expenses decreased by \$2.7 million or 26.8% to \$7.3 million as compared to \$9.9 million in the second quarter of 2023, largely reflecting achievements in cost reductions due to our simplification and streamlining efforts. As a result, we are expecting our 2024 G&A to be in the range of \$29.5 million to \$31.5 million.

Turning to our balance sheet and liquidity metrics. At quarter end, total debt outstanding was \$470 million, and we had total liquidity of \$473 million, made up of approximately \$30 million of cash and \$443 million available on our revolving credit facility.

We issued an eight-year unsecured private placement note in April with a stated rate of 6.09% and used the proceeds from that note to repay a mortgage that matured during the second quarter. In addition, we used one of our two forward starting interest rate swaps to hedge the floating interest rate on our revolving debt when it became effective in May.

As a result, all of our debt at quarter end was at fixed rates and we ended the quarter with a weighted average interest rate of 4.75%. Net Debt to Adjusted EBITDA was 3.7 times compared to 4.2 times at 2023 year end, primarily reflecting the impact of non-core land sales that occurred in the first quarter of 2024 as well as lower G&A.

With respect to our dividend, we paid a second quarter dividend of \$0.2225 per share on July 8, and our Board declared a third quarter dividend of \$0.2225 per share that is payable on October 7.

In the coming weeks, we will be establishing a new at-the-market program to replace the existing ATM facility that expires in August. The ATM program provides efficient access to capital markets and together with our existing share repurchase authorization enables us to have the necessary tools in our capital allocation toolkit as we evaluate opportunities to maximize shareholder value.

As Lance mentioned, based upon our performance in the second quarter and our improved outlook for the remainder of the year, we are again raising our guidance. We now expect same-store NOI growth in the range of 1.25% to 2.25% and we are maintaining our guidance for same-store NOI growth, excluding collections of prior year reserves at 2.1% to 3.1%.

We are also raising our FFO guidance and now expect 2024 total company FFO in the range of \$1.17 per share to \$1.26 per share. The improved FFO guidance consists of higher CRE and corporate related FFO per share, where we are now guiding to a range of \$1.04 to \$1.08 per share due primarily to NOI improvements and G&A cost reductions.

Total company FFO also comprised of Land Operations FFO, where we are increasing our guidance to a range of \$0.13 per share to \$0.18 per share. As Lance previously mentioned, we closed on the sale of 81 acres of non-core land in the third quarter, which generated a margin of approximately \$5.2 million and our increased guidance related to Land Operations reflects the impact of this sale, improvements to our cost structure and our improved outlook for our legacy joint ventures.

Finally, we are also raising our 2024 AFFO guidance to a range of \$0.99 per share to \$1.08 per share, due primarily to the improvements in FFO with that, I will turn the call over to Lance for his closing remarks.

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Thanks Clayton. I'm pleased with what we've accomplished in the first half of the year and how we are positioned for the remainder of 2024. Our assets are performing well, we're making progress in finding opportunities to grow our portfolio, and we've got the balance sheet capability to support those investments and continue to become more efficient as we further streamline our business.

On that note, we'll now open up the call to questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions)

Alexander Goldfarb, Piper Sandler.

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Hey, Alex you there?

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**Alexander Goldfarb** - *Piper Sandler - Analyst*

Sorry. The mute button it's a new feature I'm just getting to learn. So apologies about that.

Okay. So just a few questions here. Certainly good quarter. Things are going well, you guys have worked hard over the past well for many years, but certainly everything coming together in the past few years. So just a few questions on what we should expect. First, and this is a topic that I've asked before, but just want to get a better handle on.

Your rent spreads and certainly over trailing four quarters, you're around 8%. It's definitely lower than what we see from the mainland competitors. But also my understanding is you guys are more akin to Federal and that you have more your portfolio has embedded bumps annually.

So can you just sort of break out when we see an 8.3 average are of 7.3 in this quarter versus what we see double digits from the mainland peers. Can you just walk a bit more through that because certainly the demand for your real estate out there is quite strong and presumably there's not excess supply so you have pricing power.

But when we look at the rent spreads, it doesn't necessarily reflect that. So maybe just parse through more of what's going on with rents and how much you guys -- just remind us how much you guys get on annual bumps.

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Yes. So I would respond by saying I think it would be hard for me to draw an exact comparison to our peers in the mainland. But what I can say is that our portfolio is consistently resilient. And so to your point, we typically on a contractual basis, we'll see 3% annual increases, particularly for a lot of our in-line tenants.

In addition to that, we'll get percentage rent clauses on many of them. But as we've also talked about in the past, we don't have as many larger or mainland retailers here in the islands. And so we view that certainly from a long-term growth perspective as an opportunity as we continue to court people into what is a high performing market.

But what we also haven't seen is some of the negatives that come with that and particularly on bankruptcies and watch this tenants. And so while those converting some of those more lower rent to higher cut off opportunities may exist in other portfolios, they don't typically exist within ours.

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**Alexander Goldfarb** - *Piper Sandler - Analyst*

Okay, cool. Next is on the land business. Certainly good to see you guys continue to wind that down, but you've spoken in the past about the legacy costs, those liabilities, I think pension and there's some other overhead. So I think that number was something like \$6 million or \$7 million annually. I think was something like that. Can you walk us through this land sale that you did in July, how much that goes towards removing that legacy overhead expense that's associated with the land business. And this accelerates expectation that could be something that maybe cease to exist in the next 6 to 12 months or you would advise us that, hey, don't get too carried away that legacy expense is probably going to be with the company for a few more years.

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**Clayton Chun** - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Hi Alex. This is Clayton. Happy to take that question. So let me just start off by reiterating the fact that one of our priorities for the company is to continue to simplify the remaining noncore assets and liabilities, and with that comes an opportunity to continue to streamline the cost structure itself.

We have had some success this past year. We've in the first quarter, we had a sale of some non-core lands and you reference and we referenced and during our prepared remarks that we had completed another land sale in the third quarter that did provide us the ability to effectuate some additional cost efficiencies, which we're going to be able to benefit from this point forward.

And so our current expectation is that our overall carrying cost for the segment itself will be at a run rate of \$4 million to \$5 million on an annualized basis. Timing for the completion of us being able to simplify the segment is I would just say that it's timing is difficult and the land sales itself are episodic, but I just want to emphasize the fact that this does remain a priority for us.

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**Alexander Goldfarb** - *Piper Sandler - Analyst*

Okay. So that's cool. So we'll go down. I think before it was \$6 million or \$7 million now goes down to \$4 million to \$5 million?

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**Clayton Chun** - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

For an annualized run rate, yes.

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**Alexander Goldfarb** - Piper Sandler - Analyst

Okay. And just a final element, is it almost sounded like you guys are seeing more external investment opportunity. And what we've always been accustomed to is in Hawaii, just things take a lot longer. One, not as deep of an investment pool two there may be an asset or whether it's a building or ground lease or something sort of sitting there that takes time or that owners just are hesitant to sell. But Lance, in your comments, it almost sounded like that was freeing up a lot sooner and that maybe we'd see an acceleration of your investment pace. So can you just let us know if that was just specific to one or two deals or if it's describing the overall environment?

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**Lance Parker** - Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director

Yes, I want to be transparent, but also cautious because we don't guide the acquisition activity. But I would say that it is fair to say that we are seeing more opportunities at the top of the funnel. And so really that's movement from where we were call it maybe six months ago, where everybody - the market was more frozen, potential sellers were really on the side line, we're seeing people sort of move off the side line.

Now it's not to say that seller expectations in terms of pricing has moved. And that's really what needs to happen next. But we're starting to see some thawing of those first steps. And so I wanted to articulate that and again, without guiding, but it would not surprise me if you start to see some potential opportunities before the end of the year.

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**Alexander Goldfarb** - Piper Sandler - Analyst

Okay. And then just sorry, one more apologies. You said you're going to re authorize the ATM and just looking at least on our NAV you and your peers are still at some healthy discounts, double digit discounts to NAV on our numbers, 25% or so. Can you just talk about ATM issuance relative to NAV. Is it -- would you wait until the stock is back to NAV? Is it something like how do we think about that? Because you're looking to renew it and yet from an NAV perspective, you're still below where it would be accretive to issue?

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**Lance Parker** - Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director

Yes. As Clayton remarked in his comments, we view the ATM as an important tool. And so really the sort of bookend both ends of where our stock may be trading, whether it's stock repurchases, which we did some modest amounts back late last year or potential equity issuance. And so the ATM was not to signal that there is any imminent equity issuance, but it is to make sure that we do have that tool available to us. And as we think about opportunities in the market, we're always looking for accretion. And so we would look for to make sure that in -- I guess philosophical terms at or above NAV, but it's really more about accretion in the opportunity. And I guess that's probably how we would think about any potential equity issuance.

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**Alexander Goldfarb** - Piper Sandler - Analyst

Okay, great. Thank you.

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**Lance Parker** - Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director

Thanks, Alex.

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**Operator**

Rob Stevenson, Janney.

**Rob Stevenson** - Janney Montgomery Scott LLC - Analyst

Good afternoon, guys. Clayton, I just want to make sure that I understand the guidance increase \$0.10 to \$0.12. The land sale gain is \$0.07. The other \$0.03 to \$0.04 in the commercial real estate portfolio is that the cost structure savings in the JVs that you mentioned at the end of the comments or is that the other sort of half penny in Land Operations? How should I be thinking about that \$0.03 to \$0.04 in the commercial real estate portfolio and what's driving that?

**Clayton Chun** - Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer

Yeah. Thank you, Rob, for the question. So the answer to that is the land operations is separate from the commercial real estate. So the comments with respect to the land sales does not pertain to the \$0.03 to \$0.04 that you're referencing. And so the \$0.03 to \$0.04 is a function of just our outlook with respect to the commercial real estate performance overall on the NOI front, in addition to our cost efficiencies and with respect to our corporate overhead and so that's what was intended to be reflected with that guidance adjustment.

**Rob Stevenson** - Janney Montgomery Scott LLC - Analyst

Okay. That's helpful. And proceeds from the land sale just pay down the line or did it go to something else?

**Clayton Chun** - Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer

The proceeds for the third quarter land sales, is what you're referencing. And so we had received that the cash proceeds is being applied to debt and ultimately in our as we had indicated in the past, our strategy would be to ultimately recycle that into investment opportunities as they arise.

**Lance Parker** - Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director

I would just add to that, Rob, to Clayton's point about recycling. This would be a great opportunity, really where we take proceeds from non income-producing land and have the opportunity to look for opportunities into income-producing assets. And so to my remarks into Alex's question, really about the market and being a little bit more opportunistic on capital recycling. This could be a good opportunity to use it.

**Rob Stevenson** - Janney Montgomery Scott LLC - Analyst

All right. That's helpful. And then any incremental known move-outs of consequence at this point? And how should we be thinking about the net FFO addition when you put the lease but not commenced against any of the potential move outs over the next 6 to 12 months?

**Lance Parker** - Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director

I don't think there's any one from a major rent roll perspective that we're too concerned about. I think the team's done a really good job of laddering out our weighted average lease terms. And so as we look at lease in the near term, feeling pretty confident about the performance of the portfolio.

**Rob Stevenson** - Janney Montgomery Scott LLC - Analyst

Okay. And then just two quick ones. What's the incremental solar opportunity beyond the five projects that you have in progress? I mean, how many additional projects? Do you think you might start as those come to conclusion?



**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Rob, I'd say we really haven't scaled those yet. I mean, these are great investments for us. Obviously, first from an ESG perspective, but maybe as if not more importantly from a financial perspective. And so we were conscious in starting with our largest assets where we had the most economies of scale, and we were able to drive the biggest benefit. And so the example being our first two generating almost [\$1 million] in NOI. And so as we think about the rest of the portfolio. I think we'll be able to provide some of that visibility. But that's really what we're focused on right now are the five that I articulated, and I will say that this is a priority for our team.

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**Rob Stevenson** - *Janney Montgomery Scott LLC - Analyst*

Okay. And then last one for me. Is there any update on the 40% leased retail property in Kauai? I'm going to butcher the name, but [Waipouli].

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Waipouli that's pretty good. So nothing, no updates to provide as of the end of Q2 but it is a priority for us as well.

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**Rob Stevenson** - *Janney Montgomery Scott LLC - Analyst*

Okay. Thanks, guys. Appreciate the time.

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Okay. Thanks, Rob.

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**Operator**

Mitch Germain, Citizens JMP.

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**Mitch Germain** - *Citizens JMP - Analyst*

Hope you guys are well.

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Hey, Mitch, thank you too.

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**Mitch Germain** - *Citizens JMP - Analyst*

Taking your comment about the acquisition markets or investment markets. What is driving kind of the change to you becoming a bit more constructive about the level of activity you're seeing?

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Yeah. Great question. And I'm not sure that, we're not - probably have more insight into the buyer side of the equation than we do into the seller side. But that being said, there is no lack of interest for buyers. And so I think just given the fact that we have not seen a lot of trades in our market. I think you know, sellers can construe that to having a little bit of pent-up demand and having a willingness to really come out and test the market.

Interest rates are still high, but there's a lot less questions around the availability of capital. It's really more about the cost of capital. And so I think part of that is leading to, again, sellers sort of coming off the side lines and at least seeing if there are -- if they could narrow that bid-ask spread that we have seen over the last couple of years.

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**Mitch Germain** - *Citizens JMP - Analyst*

Great. And sales on the year, have you changed your -- looking to accelerate the sale of these parcels? Is it a pricing mechanism in terms of what your kind of view kind of reduced kind of what you're asking is? Like what's causing this activity to now accelerate here?

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

You broke up for just a minute, I want to make sure that we got the crush - the question, right? Are you asking about our land?

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**Mitch Germain** - *Citizens JMP - Analyst*

I was asking about why the land sales appear to be accelerating a bit here. Is it a function of your cost expectation maybe it's come down a bit. Or have you changed the methodology and how you're marketing or you're marketing to?

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

It seems like there is clearly a shift because we've had gone, a decent stretch without any major land sales. And now two quarters, we're providing results that we did not guide to. And so I can certainly appreciate that perspective. As we shared last quarter was the 300 acre sale, that deal came together so quickly, it really from start to finish was in a matter of weeks. And it was because we had the existing relationship with the buyer. And so we were very opportunistic. It was less about us changing our methodology or pricing expectations.

And I would say that this most recent 81 acre in some ways. I mean, it was a little bit longer in terms of the process that we were going through, but it came together very quickly at the end. And there's also a lot of - for land deals, whether it's availability of financing, just questions around potential entitlements or other things. There's more risk in closing these deals and that's why they tend to be more episodic and more difficult for us to guide to.

So I don't think there's anything different from our perspective. And as Clayton indicated, this remains a priority for us. It always has been. And when we do get the opportunity to get close, we're going to definitely move to close that gap and strike because it is nice to be able to make additional progress in trying to narrow this portion of our business.

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**Mitch Germain** - *Citizens JMP - Analyst*

Right. Thank you.

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Okay. Thanks, Mitch.

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**Operator**

Brendan McCarthy, Sidoti.

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**Brendan McCarthy** - *Sidoti & Company, LLC - Analyst*

Hey, good afternoon, everybody. Thanks for taking my question. I just wanted to start out looking at the capital allocation framework. I know you mentioned the acquisition opportunities out there. Look a little more promising at the top of the funnel, but then you also mentioned the recent land sale, the proceeds went towards debt paydown. I was just wondering if you could provide some insight on how you rank your capital allocation priorities at this point in time?

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**Clayton Chun** - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah, happy to take that question, Brendan. It's Clayton. So as far as our capital allocation goes, we evaluate each investment opportunity based upon the return that's expected to be provided, and we want to ensure that we get an appropriate risk-adjusted return. And so with that in mind, we look at opportunities, whether it's acquisitions, whether it's share repurchases, even if we were to be issuing equity. And so I think for us, the key is ensuring that we're going to get the appropriate risk-adjusted return and so that's the lens in which we view it.

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

And Brendan, maybe I would add to that. I would say that as we survey the market, we have an appetite really for all of our existing food groups. So it's not like we have a specific allocation that we're trying to achieve and saying, you know, we like the fundamentals of retail. There are specific assets that we really want and ones that work we will pursue same for industrial, same for ground leases. And so to Clayton's point, it really does come down to risk-adjusted returns and not to say that we're completely agnostic. But in many ways, we are really looking about just opportunities from a holistic perspective as opposed to more specific applications.

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**Brendan McCarthy** - *Sidoti & Company, LLC - Analyst*

Great. Thanks, Lance. Thanks, Clayton. I wanted to take a step back with the big picture. I know that you mentioned, Lance, I think you mentioned foot traffic growth was healthy in the second quarter. Can you provide some insight on what you saw from a tourism perspective?

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**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Yeah. So tourism numbers year to date are down. We've never fully recovered from 2019 pre-pandemic numbers, but maybe more important to call it pre pandemic [2019] also represented an all-time high for the state in terms of visitor arrivals to Hawaii. And so we got sort of high 90s back to fully recovering. If you compare 2024 year-to-date to 2023, we are down about 4%. And I would say that's led almost entirely by Maui. There's some of the islands are down a little bit. Some are up a little bit, but the impacts of the Lahaina wildfires in August of last year continue to flow through the market. Maui specifically is down almost 25%.

And so I want to reiterate just, as significant as it was for the island and the impact that we're seeing in the state, we were very fortunate in that none of our employees or none of our assets were specifically impacted by that. And so we don't necessarily see those impacts at the property level, but across the state, from a tourism perspective you do.

And so really my comments on the foot traffic was intended to not necessarily counterbalance that, but I think to reinforce the point that we've made in the past about the fact that our portfolio really is more need-based. It's more neighborhood-based. We are not entirely dependent upon the tourism industry to drive our retail sales. Of course, tourism is a major driver of our overall economy. And so that does help, but we're not dependent on it.

**Brendan McCarthy** - *Sidoti & Company, LLC - Analyst*

Got it. One more question for me. Just to get the updated guidance, what are some of the main factors that you think might you provide further upside or downside looking at the rest of this year, obviously, I assume further land sales would be one of them. But what are some of the other factors there?

**Clayton Chun** - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

Yeah. Sure, Brendan. So I guess if you think about it from the low end of the range, bad debt expense clearly could be -- what actually bad debt expense could be a positive or negative in terms of the guidance and pushing and pulling where we end up. I would also say, just looking at our tenants, a delayed occupancy. So to the extent that we're able to lease up or get additional delays on commencements that could potentially push us towards the lower end. And the inverse holds true as well. So but all-in-all, we felt comfortable that where we stand, what we're seeing, we felt comfortable increasing our guidance overall.

**Brendan McCarthy** - *Sidoti & Company, LLC - Analyst*

Great, great. Thanks, Clayton. One more question, if I may. Just looking at NOI at the asset class level, obviously office is down through the first half of the year, retail a little bit more flat and solid growth in industrial. Can you just talk about the trends that you're seeing in industrial versus retail?

**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

Yeah. I would say overall retail remains strong. Really, what was sort of, for what is driving our performance there is recoveries from prior years, and that's that kind of reflected in the way that we -- the nuanced increase in the same-store NOI with our guidance going forward. And as we indicated, I mean, we did on a year-over-year basis, we have some fluctuations in the portfolio, some one-time events that sorts of caused that, as well as some bad debt recovery.

And then on the industrial side, I would say just good performance, the market continues to remain strong vacancy rates are still, if not the lowest in the country, very close to the bottom. It did tick up a little bit, but we're talking about going from 80 basis points to 110 basis points. I mean that just to give you some sense of the tightness of our industrial market here.

**Clayton Chun** - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

I think Brendan, if I could just add on is the fact that when you take a step back looking at our guidance. Number one, we increased our guidance with respect to NOI. And number two is we had made comments earlier in the year that one shouldn't expect that there's going to be, I guess, a straight line or consistency throughout the year quarter-to-quarter. And so as we said in the prepared remarks, this is an example of it with respect to the second quarter, but we're happy with the results and at the end of the day, we felt comfortable given the performance and the outlook that we raised our guidance.

**Brendan McCarthy** - *Sidoti & Company, LLC - Analyst*

That's helpful. Thanks, everybody.

**Lance Parker** - *Alexander & Baldwin Inc (Hawaii) - President, Chief Executive Officer, Director*

All right. Thanks, Brendan.

**Operator**

There are no further questions at this time. So I'll hand the call over back to Clayton Chun for closing remarks. Please go ahead.

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**Clayton Chun** - *Alexander & Baldwin Inc (Hawaii) - Chief Financial Officer, Executive Vice President, Treasurer*

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](mailto:investorrelations@abhi.com). Aloha, and have a great day.

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**Operator**

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

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