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PRESENTATION

Operator

Good day and welcome ladies and gentlemen to the Alexander & Baldwin Second Quarter Earnings Release Conference Call. At this time I would like to inform you that this conference is being recorded and that all participants are in a listen-only mode. At the request of the Company, we will open the conference up for questions and answers after the presentation. Joining us today from the company is Mr. John Kelley. I will now turn the conference over to you Mr. Kelley, please go ahead.

John Kelley - Alexander & Baldwin Inc. - VP of Investor Relations

Thank you. Good afternoon this is John Kelley. With me are Allen Doane, President and CEO of Alexander & Baldwin; and Jim Andrasick, who is Executive Vice President and Chief Financial Officer of A&B as well as President and Chief Executive Officer of Matson Navigation Company. Following the introduction, Allen will give an overview and an outlook commentary; Jim will comment on progress at Matson and some of the financial matters. I'll give a quick summary about some economic statistics and then as the operator said we'll open for questions. I want to thank everyone for participating, if anyone is having trouble hearing, you should hit "*" "0" and the operator will help you. Professional investor invitees on the call should have received e-mail or fax call reminder and the earnings release and copies to the release is also available on our website, and replay is available both on the web and using the calling numbers on the invitation for one week. We are happy to take individual calls later. We do have to note there is a 6 hour time difference with Eastern Daylight time at this time of the year. Statements on the call are set forth our expectations and predictions based on facts and the situations that are known to us as of today July 25th, 2003. Actual results may differ materially due to risks and uncertainties such as those we described on page 19 of the Form 10-K and our 2002 Annual Report, and I'd remind listeners of our website www.alexanderbaldwin.com and its links to our subsidiaries for supplementary information. With that I would like to return the call over Allen Doane. Allen.

Allen Doane - Alexander & Baldwin Inc. - President and CEO

Thank you John. We are going to take a little different approach today in a couple ways. First the initial commentary will be reduced from approximately 30 minutes to less than 20 and it's going to be little more focused on some of the future looking elements of the business relative to some new investments. I would characterize the second quarter results as excellent. Matson was up 67% of a somewhat suppressed 2002. Our leasing income was up 18% in the quarter year-over-year and that was a record quarter, and overall net our income was up 83%. What I would like to do is focus on the real estate business today and some other projects that we're involved in; some recent announcement that have been made relative to these projects and then I'll ask Jim Andrasick to comment on Matson.

Jim has accepted on a permanent basis the position of President and CEO of Matson. Jim has done an outstanding job with Matson, and I am confident that he will continue to excel in this key position. On interim basis he will continue as the A&B CFO as we are evaluating replacement candidates. So if I could for a couple of minutes, I am going to focus on real estate and give you some idea about where we are and we are going.

First just quickly on the leasing segment, our income is up quite nicely -- 18%, assets are up about 9% year over year in the quarter, so you can kind of figure out what's investment growth and what is income growth excluding investment growth. Notable that we've got a 96% occupancy on the mainland versus 91% last year, 90% in Hawaii versus 87% last year; this is the first time that I can remember in quite a while that we've had both elements of our commercial portfolio have a 9 on the first digit.

The one major sale transaction we had in the quarter, which did not show up in the leasing segment but shows up in our property or management and sales activity segment, is a shopping center Arino; it's kind of a standard story for us, we buy it, we own it for a while, when it's time to sell we sell, we sold and achieved the gains little more than \$6m on the sale, and this was just a good transaction overall. We had owned it for seven something years so that's also kind of a standard length of time for us usually anywhere from 3-5-7 years, and then we will move to something else. We expect to re-invest the proceeds from the sale in other property investments on a tax-deferred basis.

The most important things that are going on in the real estate part of the company are -- really don't show in the income statement. Let me bring you up-to-date on just a couple of these. The first is the Hokuia project that is a luxury high rise condominium in Honolulu to be built where the principal developers were in the partnership with some Hawaii developers on this. We put in \$40m, the total of 50m in equity. We've just secured the loan to begin the project. We expect to break around before year end, 247 units; 230 plus have been sold on non-binding contracts, average price \$1.1m.

Second project [Lanakeia]. You may not remember the name but that is luxury -- sub-luxury high rise condominium project in Waikiki that we are developing on our own, 100 units. First high rise development in Waikiki since the early 1990s. Of the 100 units, 89 have been sold on a nonbinding contractual basis. The average price here is \$558,000. We expect to begin site work early as October.

Third project, Kukuia that is our 1000 acre master plan community resort on the southern part of Kauai. We have a partner in this project DMB Associates from Arizona; they are a very reputable, very, very accomplished upscale developer for master plan communities. We are engaged in a re-entitlement process right now with them assisting us. There really were two steps we had to go through the first which was the state, the second was the county. I am pleased to report that on July 10, on a first reading basis that we are able to have the state Land Use Commission approve the project on a 6-0 vote. So we are into the county in now for zoning that could take about a year but you never know, 1500 units life style development golf course center. This is a sustainable income project for more than a decade with a highly reputable partner.

The last project and the one that is most current in terms of having just been announced this week is the acquisition or I might say the re-acquisition of Wailea on Maui. A&B had been the initial developer of this premier resort in the early 1970s, sold it in the late 1980s, and we are now in a position we have a contract to acquire it for a \$135m, three superb golf courses on Maui, two golf courses on Kauai. Our focus is 270 fully zoned undeveloped acres within the Wailea resort; this is what you would call infill development activity. Many of you I know have been to Wailea and know how extraordinary the location is. We do have a partner on this transaction, he is a well known and successful golf course owner, and he is a developer from Canada, Mr. Caleb Chan and we'll be in a position in a future of date to announce the nature of our relationship with him on this transaction. This is a second what you would call a ten year plus development investment with attractive -- potentially very attractive returns for the company.

Just a couple of final comments moving away now from real estate. On the Ag side record yield we had some factory constraints. We don't expect the second half of the year in our food product segment to be as good as last year's second half but we are doing okay. Matson symbolically, significantly christened last week, the -- our first new ship to join Matson's Hawaii Service since 1992, we were honored that Mrs. Margaret Inouye, wife of Senator Daniel Inouye christen the ship and with that Jim will provide more details on Matson, and on the new vessels, and some other matters. Jim.

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

Thank you very much Allen and I remind you that -- you made a forward-looking statement in saying that I will continue to excel as the President and Chairman of Matson--.

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

I think, I said I expect you continue to excel.

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

Well with that it is certainly an honor to have that position. We have had a good recovery at Matson not just in the core Hawaii business but also in our affiliate performance which includes joint ventures in Scuba Diving on the West Coast and an operation in Puerto Rico and that really has driven large part of our year-over-year improvement. But much of that was revenue driven. Revenues were up 13% in Matson Navigation for the second quarter and up 18% in our intermodal service, and of course, the operating profit rose to 23m, up nearly 10m from a year ago, and underlying this recovery was a thing we talked about many times, much improved performance at our Kent Island terminal. This is our [inaudible] terminal in a way, one of the parameters we use is moves per hour at the dock side, the containers going either on or off ships per hour. We averaged 22 moves per hour in the second quarter and that compared to 20 in the first quarter; and about 18 during the entire first half of 2002. Well this is getting closer to our objectives; it's kind of like your golf score, it's easy to go from 120 to 95 and then the next 10 strokes is much more difficult, and that's the stage we are at, at Kent Island.

Our vessel schedule integrity also improved greatly, we're running 8 ships currently and on time performances are much better than the first quarter and of course tremendously improved from the fourth quarter of last year during very disruptive times on the West coast. Several other items, last call, we talked about the new vessels and whether the company intended to own them or at lease or time charter them, I'm pleased to report that the negotiations with Matson's offshore unions tipped the scale that favored outright ownership.

So we have made that decision, and the financing for the first vessel is not yet in place, but it is committed. It will take the form of 55m in title 11 government guaranteed bonds, and 55m from our capital construction fund at Matson. Delivery, I believe, we can now assume will be late third quarter and actually sea trials begin this Sunday at 06:00.

Another major strategy I wanted to comment on was vehicle handling. The company handled during the first half of this year record number of vehicles of to and from Hawaii from the West Coast and this caused us to revisit our strategy for carriage of those vehicles. Right now, we are 25% of our capacity is what's called roll-on and roll-off, which is really the preferred method of carrying cars and other rolling stock, and that we had made a strategic decision to increase that to 75%. And as a part of that strategy have chartered in, effective the fourth quarter of this year, a [row row] vessel from the third party and dedicated terminals will be established in both Oakland and Honolulu to service his new strategy with direct hauls to Maui as well.

We hope to start that service early in the fourth quarter of this year and in connection with the Matson -- my appointment we have also reorganized the Executive Management of Matson effective August 1 with the right people in the right places for the next 18-24 months. So, morale I think is, you can say is very high at the moment and will continue to be and we look forward to really good things.

I'd like to just refer in my closing comments on the financial side of it to the industry segment data on page 7. And the corporate expense line is something we often have commented on in the past. For the first half of the year, we're up \$2m from \$6.2-8.2. That does not reflect any change in headcount at the corporate level. It is more a reflection of rising health benefit cost, our pension accounting effects some of them at least, outside service fees relating to audits and insurance in particular. And other such elements of expense.

Also you can see that our interest expense continues to decline or driven by rates. And on the cash flow and the balance sheet side, I'd just like to make a couple of quick comments, because really there -- on page 8 in the balance sheets, the current assets get increased and cash balances at Matson at the end of the second quarter were about \$14m versus nothing at the end of the '02. We also had a land transfer during the first quarter

of [Ueiu] lands owned by A&B in the amount of about \$28m. And that accounts for all of the decline in real state development and all of the increase in our investment accounts. [Let's] transfer this clip from one asset category to another. And finally our current liability accounts did increase taxes payable on outstand. We had cool dividends -- A&B dividends is about 9m. Because of the timing of those dividends is not yet posted at year end 2002.

Our cash flow is very strong for the 6 months. Operating sources generated over 61m and compared to the last year where we had some very significant tax payments on the sale of the securities in 2001. We -- that did not reoccur. So, the combination of those two factors greatly improved the company's cash flow which allowed us to repay a small amount of debt, maintain normal dividend payments, and I'm pleased to say that the condition -- natural condition of the company remains very solid and very stable. With that I would like to turn it over to John Kelley who I believe will report on some Hawaii economic indicators. John.

John Kelley - Alexander & Baldwin Inc. - VP of Investor Relations

Thanks Jim. The state's economy is performing reasonably well to date. There has been active growth in construction and real estate offsetting short-term what I would attribute to SARS-related weakness in the international travel, but I do have to note that we are still well below peak visitor travel levels. This month the State Forecasting Agency raised its estimate of real gross state products to about 2% for this year versus 1.7% that they had forecast couple of months ago so a modest increase there.

This morning, personal incomes were reported nationally and such for the state's Hawaii did rather well. Comparing first quarters, the US number was up 3.4%, Hawaii was up 5.5 to [meet] at the third fastest growth rate in the US, and comparing the first quarter of this year to fourth quarter of last, the US number was about 1% and Hawaii was up to 2%. But there is some good potential there.

In the all important visitor industry year-to-date through June total visitor arrivals are down about 1.5% and the trends we've talked about before hold the US visitors were up about 3% and that represents almost three quarters of the market whereas international visitors are down 11. But because of the longer stays in the Islands by both segments the visitor days measure which is rather important from an economic point of view -- total was up about 6% with the US again leading up 9% and the international down 5. Now since June and changing the measurement basis just a bit in July there was some, rather steady improvement day-by-day on both the domestic side and in this case measuring Japanese arrivals but again there comparing against a rather soft calendar year '02 with the total as now just a little bit above '02 levels.

For the year, the outlook forecast is about 6.5m visitors, up one-half or 1% and that compares with almost 7m, the peak that was set in calendar year 2000. The active sector that is offsetting the weakness in visitors is in construction and a couple of quick measures there in the first quarter is the contracting tax pays, which is a proxy for current activity was up 23% on our quarter-to-quarter basis. Jobs in the construction industry were up 9%. And then looking forward, total private building authorizations in the first quarter doubled, and that was led by activity in commercial, industrial, and followed just slightly behind by residential and there was a small offset in government where some fiscal constraints are setting in as in many states.

In the first quarter 547 new residential units -- single-family residential units were authorized, that was a 65% increase and about 300 multi-family units were authorized, that were a very substantial increase but it is pretty volatile number as you can imagine multi-family units come in large blocks. A lot of this is driven by residential sales, which continue to be very active, and just looking at Oahu through June residential sales volume in dollar value is up 32% from the first half of the last year and single-family home prices are back to the levels -- the high levels that were set in the 1990 boom period. And on new homes we're beginning to see some supply constraints, but new home sales in the first half were up 38%. All of this activity helps offset the weakness in international visitors and the still relatively modest level of total visitors. Operator with that I'd like to close the formal presentation and open it to Q and A.

QUESTIONS AND ANSWERS

Operator

Thank you. The question and answer session will begin at this time. If you are using a speakerphone please pick up the handset before pressing any numbers. Should you have a question please press "*" "1" on your pushbutton telephone; if you wish to withdraw your question please press "*" "2". Your questions will be taken in the order that they are received. Please standby for your first question. Our first question comes from Jamelah Leddy from McAdams Wright and Ragen, please go ahead.

Jamelah Leddy - McAdams Wright and Ragen - Analyst

Thank you I have a couple of questions. With respect to the terminal improvements at Kent Island, I was wondering if you would give the number of moves per hour that you are currently achieving along the west coast and may be also for the company overall?

Allen Doane - Alexander & Baldwin Inc. - President and CEO

I am going to ask Jim to do that, its west coast moves per hour Jim.

James Andrasick - Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson

Those generally trend higher than the Hawaiian moves for a lot of different reasons, but right now they are -- it's about 24.5 is my recollection.

Jamelah Leddy - McAdams Wright and Ragen - Analyst

Okay, and for the Company overall, would that just be an average between the two or is it more skewed towards the West Coast?

James Andrasick - Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson

No, that is the West Coast. The Hawaii moves per hour at Kent Island have averaged 22 for the last -- during the last 3 months.

Jamelah Leddy - McAdams Wright and Ragen - Analyst

Right, but I am asking this for the Company overall, the total company, is it just --?

James Andrasick - Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson

We don't really measure it that way but --

Jamelah Leddy - McAdams Wright and Ragen - Analyst

Okay.

James Andrasick - Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson

I guess if you took a simple average it would probably be pretty close.

Jamelah Leddy - *McAdams Wright and Ragen - Analyst*

Okay. In your press release your guidance was may be a little bit more conservative than I would have thought. You had talked about tough quarterly comparisons in the back half of this year and I was thinking that the ocean transportation margins were down in the fourth quarter last year due to the port strike and I would imagine that would certainly have been easier comparison, and with a new improved vessel and economic conditions improving in Hawaii, it seems hard for me to believe that its really going to be that difficult -- and I guess I am wondering do you really have concerns that EPS will decline year-over-year in Q3 and Q4 and I know you don't give specific guidance, but that's sort of how I read your statement in the press release?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

We're at a mode here where providing very specific guidance just doesn't to make a lot of sense to us on many different levels. Where -- we have done very, very well on the quarter, we've have got good momentum right now, we really have already achieved most of our objectives for the year in our property sales area, but not all of them. Though we are not going to take what we've got in our property development and management sales area and then come in and put two times on that one.

Jamelah Leddy - *McAdams Wright and Ragen - Analyst*

Okay.

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

So and then the other item just in terms of general direction, and I think, we've been pretty specific on that as we had unusually strong second half in food products last year and we know that we are not going to lap that one and that's why we were specific as we were. Where we do expect to have a pretty good second half in ocean transportation --

Jamelah Leddy - *McAdams Wright and Ragen - Analyst*

Okay.

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

-- compared to last year and exactly how good, we are not in a position to say, but we do expect as you are asking in general terms to have a good second half in ocean transportation, a good second half in leasing. Sales, we have done most of what we want to do and need to do already for this year, but you never what's going to happen there.

Jamelah Leddy - *McAdams Wright and Ragen - Analyst*

Okay.

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

And then we have talked about food products.

Jamelah Leddy - *McAdams Wright and Ragen - Analyst*

Okay, great. And can you talk about how are margins compared on some of your new larger joint venture projects with other real estate margins?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Yes, we, you know, it's business where -- because it's not an operating business we generally look at it on a return on capital, particularly, an IRR basis and the margins that we are seeing in general and the returns that we are expecting are ones that I would characterize -- as quite attractive. There is a range, the development margins and profitability by virtue of the additional risk that you are taking should be and generally are higher than they are in some of the more secured segments of our business, but you know, we've underwritten the projects that I highlighted today. The high-rises and Wailea and our Kukui'Ula venture. We are expecting some pretty dog on good performance in those.

Jamelah Leddy - *McAdams Wright and Ragen - Analyst*

Thanks. Great. I have some more questions. But, I will go back into queue and let other people have a chance. Thanks.

Operator

Our next question gentlemen, comes from Nichol Abele from Karis Company. Please state your question.

Nichol Abele - *Karis Company - Analyst*

Good afternoon gentlemen. Congratulations on the good quarter. My first question is for Jim with respect to the revisiting strategy on the vehicle handling, going from 25% capacity to 75% capacity on roll-on roll-off. Can you just quickly comment on the cause for the change in strategy and what the implications as might be going forward?

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

Certainly, one of the causes is what we feel is increased demand and the business - for the major automobile manufactures who make up a good bulk of a customer base here and incidences of damages is a very big concern. And, when we are as we have in the past stuffing cars in and out of containers using different racking systems as well as some roll-on, roll-off capacity that we stuffed into our liner vessels, it has been increasingly hard to meet those quality standards.

So, I think it is a customer driven strategy change, and a volume, in order to accommodate the increased volume that we see that goes along with the growth in the Hawaii economy we [have decided] to increase our capacity. So, it seems like a really opportune of time to take these actions. The implications are -- our customers will be happier; I would hope. And that we would actually enjoy some cost savings as a result of the greater efficiency involved in roll-on, roll-off of carriage of vehicles, which is pretty much the international standard that involves the carriage of automobiles and rolling stock.

There is an investment involved and I think the ability for the company to realize a financial benefit from this beyond improving our customer service will be eliminating or displacing one of our existing liner vessels in the Hawaii trade either in part or entirely and -- it remains to be seen that how successful we are in implementing all this, but it's a major undertaking by the company and -- we -- as I said here earlier we expect to begin the service in the fourth quarter.

Nichol Abele - *Karis Company - Analyst*

Do you have any guidance for the quantitative number for the cost savings?

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

No. I really can't provide that at this time.

Nichol Abele - *Karis Company - Analyst*

Okay. Just moving along, international visit soft again down 11%. What is going to be the factor to turn this around and what is actually holding it up?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Well you know there've been all kinds of onetime factors, first 9/11 and then SARS. There's some underlying economic issues in Japan, that's really the principal supplier of international visitors to Hawaii. We get a lot of different signals, on where the Japanese travelers intend to go, but, you know, I would expect that over time as some of these concerns and fears start to subside that we will begin to see a recovery with the Japanese visitor count.

It's been pretty -- if you go back and you look at the perspective of the last couple of years, it's been actually pretty amazing that we've held up the way we have, because there has been -- not just this past year, but if you look at compared to 3 or 4 years ago, we have really had a pretty dramatic drop. And I would underline the word dramatic in the Japanese visitor count in Hawaii and that's pretty much been all offset by visitors coming from the mainland US. So the resiliency of this market over a period of several years has actually surprised me.

Nichol Abele - *Karis Company - Analyst*

Okay. And then just one more quick question with respect to the inter-modal division. Another good quarter for this division on the back of increased customer volumes. What is actually driving this and is it sustainable going forward?

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

Two factors. One is, I guess, industry wide demand is up along with the economy post 9/11 recovery generally speaking. That's increased the customers' needs for intermodal service. I would say the other factor is just picking up additional geographic areas through selective hiring of brokers and agents and that's I believe the combination of the two was what was you're striving at the revenue line. [We did do] -- as I'd reported earlier we had new leadership at Matson intermodal and [Bob Patworth], and we expect to have bigger things in the future either through continued geographic growth or perhaps selected acquisition and would put us into new area.

Nichol Abele - *Karis Company - Analyst*

Okay perfect. All right. Thanks a lot guys. Congratulations.

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

Thank you.

Operator Thank you our next comes from Tom Spyrow from Spyrow Capital. Please state your question.

Tom Spyrow - *Spyrow Capital - Analyst*

First on Matson we have new vessel that will be placed in service soon enough. I wonder if you could help us better understand what that means from an earnings stand point and a cash flow stand point?

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

I can give you a broad description of kind of where we are with the vessels. We've had some relatively good results and I would -- while I go when we were looking at these vessels, two new vessels the description was that it was going to have some dilutive effect. I would say now that the dilutive effect is going to be minimal and that is progress why the change; there really are a couple of factors; one is that we were able to achieve as Jim, had indicated earlier the source of operating cost savings that were necessary to man these vessels. And that really had been expected when we first got -- made the investment.

The other thing is that our financing is turning out to be more favorable than we had originally anticipated and the combination of those two factors has made it a better investment for the company. You really have to look at this as a replacement strategy. We've got an average fleet that is getting up there in years. And it is harder to quantify at times, some of the savings you get with less breakdowns, less repair and maintenance, but all those things have a way of creeping into the P&L line, but not necessarily in any one quarter. So, I would just say that the overall view now that we have on these two vessels is certainly better than when we made the initial investment.

Tom Spyrow - *Spyrow Capital - Analyst*

And from the cash flow standpoint, I would presume that the depreciation resulting from a new vessel will exceed to whatever depreciation we still have been taking on the old vessel -- the depreciation here for book purposes?

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

You can be assured of that.

Tom Spyrow - *Spyrow Capital - Analyst*

Yes. That's great. On the -- just to go back to the [row row] vessel discussion from a moment, that I understand you folks to be saying that you expect that once you've got the [row row] vessel in service. You'll take one of our older liner vessels out of service.

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

That was -- yes that would stand to reason because a lot of older are currently shipped in containers or border liner vessels to the extent they are displaced we'll have available capacity and if demand is not there to justify -an eight liner vessels configuration it will be adjusted as well, this is the likely result.

Tom Spyrow - *Spyrow Capital - Analyst*

Just go back to the newly purchased vessel for one second. The financing, you've mentioned the \$55m coming out of the CCF, I guess the balance sheet change will see -- it will be the CCF line item decreased by a \$55m. We will have a debt of \$50 some odd million and we'll have the new vessel on the balance sheet as well.

James Andrasick - Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson

It's exactly correct.

Tom Spyrow - Spyrow Capital - Analyst

Okay. The acquisition from Shinwa, how could that come about and what's the genesis of that? It's kind of unusual that we -- I guess sold them some fraction of that years ago and now they are selling it back to us.

Allen Doane - Alexander & Baldwin Inc. - President and CEO

Yes, it really is unusual. It's -- I believe that they were in a position that this was a regulated sale through that -- the agency -- RCC in Japan that oversees that type of the activity. This was a competitive process, which is not normally the case for the investments that we have made, so this was the process that involved a number of different parties putting in a bid, and we for reasons that probably or somewhat understandable and may be a few that are less discernible. We were able to prevail.

Tom Spyrow - Spyrow Capital - Analyst

I guess the transaction is going to be diluted for some period of time.

Allen Doane - Alexander & Baldwin Inc. - President and CEO

I won't say that.

Tom Spyrow - Spyrow Capital - Analyst

You would not?

Allen Doane - Alexander & Baldwin Inc. - President and CEO

No.

Tom Spyrow - Spyrow Capital - Analyst

Okay. Lastly let just me echo --.

Allen Doane - Alexander & Baldwin Inc. - President and CEO

Let me -- I don't want to change what I said, but for some period of time -- there may be a short period of time, but I would not expect us to be a lengthy dilutive investment at all. And you'll learn more about it as we -- as the ownership is transferred, we will be a lot more specific, but I would not be concerned that this is going to be a dilutive investment.

Tom Spyrow - Spyrow Capital - Analyst

Great. Lastly, let me just echo a comment that an earlier caller made with respect to your caution that the second half looks particularly a challenging and I am withstanding your comments about Ag and property sales, I guess, I am still scratching my head a little bit to find -- to figure out what

exactly those challenges are. It would seem that second half last year was a particularly tough one for Matson and since that's such a central part of the company, and we are entering the second half with so much momentum there. I'm still a little puzzle as to why the second half looks like a challenge.

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Well --.

Tom Spyrow - *Spyrow Capital - Analyst*

Are there other particular problems we should think about?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Yes. Number one, I was born conservative in terms of making statements -- I apologize for that personal characteristic. But now as I was suggesting, we are going to have. Okay, third quarter last and fourth quarter is where we started this life, so was that exactly all of the year, but we expect to have a pretty good second half in ocean transportation. We are going to have a really good year and are having a good year in our property area, the only area where publicly suggesting caution is on the food products area where we earned an unusually large amount of money in the second half of last year.

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

\$10m to be exact.

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Yes. So we are not going to earn \$10m in food products in the second half of this year.

Tom Spyrow - *Spyrow Capital - Analyst*

Thanks a lot; and I'll get back in queue.

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Okay.

Operator

Our next question comes from Stewart Scharf from Standard & Poor's, please state your question.

Stewart Scharf - *Standard and Poor's - Analyst*

Hi, I was wondering if you could talk a little bit about the fuel prices and surcharge and where you see that going?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

I will make a brief comment then I'll have Jim elaborate on it. We have -- the objective of the fuel surcharge is not to have it either as a benefit to the company or to in the flip side to have fuel prices be a detriment to the company, and unlike some other transportation businesses, we are seemingly able to neutralize the effect of changes in the cost of oil. You know, you've got oil trading still about \$30 a barrel, our fuel surcharge is what 6.5% right now, we lowered it several months ago but it's probably where it's going to be for a period of time. The broader prospective story on this is that we do have a mechanism in place that on an equitable basis does allow us to offset the changes and it works. Jim?

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

I would just add Allen that this is a residual fuel market mostly in West Coast and to the extent the you have refinery disruptions or anything of that sort, highly seasonal, and the prices I am just looking at them now for references really been quite volatile from one week to the next, but it's averaged down about for June almost \$28 barrel, which isn't that much different than March, you know, during the period one when all the crude oil prices are trending higher. So, we have made I think the appropriate adjustments, and I just would echo what Allen said this is a -- just a pass through on Matson's half to his customers of ups and downs in fuel cost and we do not hedge fuel. I don't believe our competitors do either. Just for this reason, we have a natural hedge in the fuel surcharge.

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

But when the price goes down and it is down on a sustained basis, we are also going to drop the surcharge because we have to maintain our credibility in the marketplace.

Stewart Scharf - *Standard and Poor's - Analyst*

And you still have the same amount of repurchase program in place, [do you] plan to utilize that at any point -- 1m shares?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Yes, we have a stock repurchase authorization that is still in place for 2m shares.

Stewart Scharf - *Standard and Poor's - Analyst*

It is 2m shares?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Yes.

Stewart Scharf - *Standard and Poor's - Analyst*

Total, okay. Was 1m added or placed - one point?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

That is right [inaudible].

Stewart Scharf - *Standard and Poor's - Analyst*

Okay. Thank you very much.

Operator

Thank you. Our next question comes from Jamelah Leddy from McAdams Wright Ragen. Please state your question.

Jamelah Leddy - *McAdams Wright and Ragen - Analyst*

Thank you. On the shipping side I am wondering if you see any opportunities for potential price increases or if you can, sort of, comment about the current situation there?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Jim, why don't you go first and I will come in second on that one?

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

Normally, we don't comment on future pricing actions but [serve it] to say that the company instituted a terminal handling charge earlier in the year to partially reflect the known increases in cost from the labor settlement from -- earlier this year and beyond that fuel surcharge movements up and down. In this case down has been the only pricing activity in our business.

Jamelah Leddy - *McAdams Wright and Ragen - Analyst*

Is that--.

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Don't need to add to that.

Jamelah Leddy - *McAdams Wright and Ragen - Analyst*

Okay. Do you have any indication directionally about container volume demands going into the third quarter?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Well, it's relatively stable right now. Autos are still at a pretty high level, but some of the major -- as we indicated in our last quarterly call we saw pretty a big bump in the first quarter -- container volume on a year-over-year basis; we did not expect it to be significant at all in the second quarter and you saw the result, and the third quarter trend could be somewhat similar.

Jamelah Leddy - *McAdams Wright and Ragen - Analyst*

Okay. And I did notice that you've paid down a little bit of debt since the end of the first quarter. Do you have any goals or targets and I know there are a lot of factors that go into your debt levels but have you restated anything as far as the targets?

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

No we haven't -- especially given all of the real estate activity that Allen enumerated at the beginning of the call. It has been a fluid situation from a treasury point of view. The Company does have substantial lines of credit that are unutilized at the moment, and our debt-to-equity ratio remains very low at about 26% --excuse me debt-to-capital ratio.

Jamelah Leddy - *McAdams Wright and Ragen - Analyst*

Okay thanks a lot.

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

Thank you.

Operator

Thank you. We have a follow-up question from Tom Spyrow from Spyrow Capital. Please state your question.

Tom Spyrow - *Spyrow Capital - Analyst*

Apart from the Shinwa acquisition what's the CAPEX budget for the second half?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

We -- when you strip out the vessel purchase and then you take out the Shinwa acquisition we've got relatively, I would call it, a modest capital budget for the second half of the year Tom.

Tom Spyrow - *Spyrow Capital - Analyst*

And I would guess that at least some of Shinwa would be financed with debt?

Allen Doane - *Alexander & Baldwin Inc. - President and CEO*

We will be in a position to describe that transaction to you when we close it. I think you will find it to be a very interesting approach.

Tom Spyrow - *Spyrow Capital - Analyst*

Overall on the shipping side over the last couple of 3 years, we've heard of about the various competitors --prospective competitors who may come into the market at some point, where do those folks stand these days in their plans to get into this market?

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

I'll respond to that Tom, it's Jim. There really were Two that have been public in their intentions -- one is called [Santa Maria] with a couple of individual who are putting together start up operations -- they presently do on own at any ships nor do they have under contracts to build any ships. So most recently there was some news report out of Pacific North-west that they have been in discussions with one of the local shipyards

there about building two or perhaps more of the smaller vessels that would make direct calls to the neighbor islands and so forth. As far as anything tangible happening I am not aware of it.

Regarding the other prospective competitor and that was Pacia Hawaii transport lines, which is a joint venture between Pacia and Van Ommeron. Those plans were put on hold when the shipyard that was constructing the pure car carrier went chapter 11. Construction -- it has been reported construction has resumed within the past month or so on that vessel and then Matson obviously has an interest in either utilizing that vessel in collaboration with this new venture or on its own. The discussions have been underway and continue on proper rationalization of the trade. But that's all we know at this point in time on those two developments.

Tom Spyrow - *Spyrow Capital - Analyst*

Thanks a lot and good luck.

James Andrasick - *Alexander & Baldwin Inc. - CFO and EVP, President and CEO of Matson*

Thank you Tom.

Operator

Thank you. I'd like to remind you if you have a question please press "*" "1" on your pushbutton phone. Mr. Kelley I am showing no further questions at this time.

John Kelley - *Alexander & Baldwin Inc. - VP of Investor Relations*

Thank you very much operator and thank you for all those who participated, aloha.

Operator

Ladies and gentlemen this concludes the conference for today. Thank you all for participating and have a great day. All parties may now disconnect.

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