



# Matson<sup>®</sup>

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## *First Quarter 2019 Earnings Conference Call*

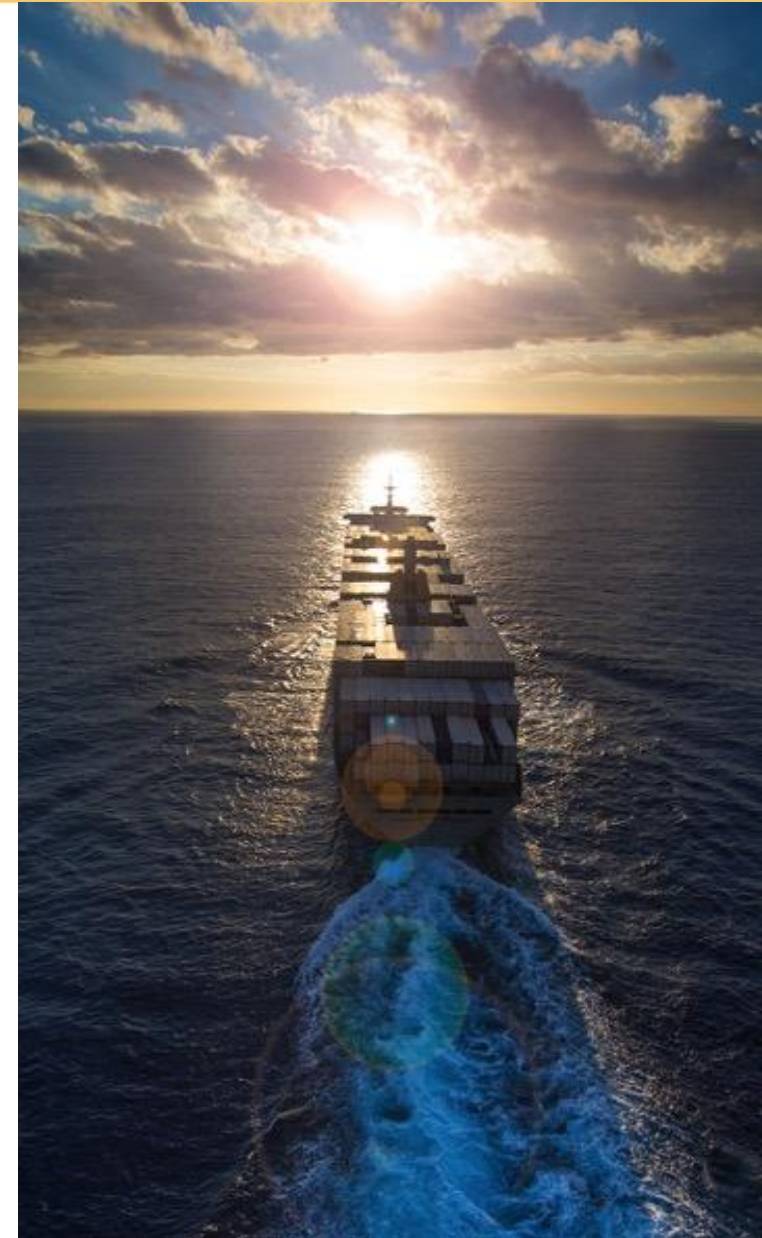
May 8, 2019

# Forward-Looking Statements

Statements made during this presentation that set forth expectations, predictions, projections or are about future events are based on facts and situations that are known to us as of May 8, 2019.

We believe that our expectations and assumptions are reasonable. Actual results may differ materially, due to risks and uncertainties, such as those described on pages 11-20 of our 2018 Form 10-K filed on March 4, 2019 and other subsequent filings by Matson with the SEC. Statements made during this presentation are not guarantees of future performance.


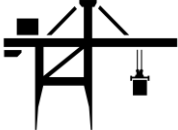



We do not undertake any obligation to update our forward-looking statements.



# Opening Remarks

- Recap of Matson's 1Q19 results:
  - Ocean Transportation came in as expected – positive and negative YoY factors
    - Strong demand in China
    - Steady performance in SSAT
    - Significant weather-related issues that primarily impacted our Hawaii service
  - Stronger-than-expected quarter for Logistics
    - All service lines performed well
- FY 2019 Outlook:
  - Maintains Ocean Transportation outlook
  - Raises Logistics outlook

# Current Priorities

	Priority	Commentary
	<b>Complete Hawaii service fleet renewal</b>	<ul style="list-style-type: none"><li>• <i>Kaimana Hila</i> was delivered on March 28<sup>th</sup> and placed in service on April 18<sup>th</sup></li><li>• <i>Lurline</i> delivery on track for Q4 2019</li><li>• <i>Daniel K. Inouye</i> performing well</li></ul>
	<b>Upgrade Sand Island terminal</b>	<ul style="list-style-type: none"><li>• The three new gantry cranes arrived at the terminal in April</li><li>• Other infrastructure work in Phase I progressing well</li></ul>
	<b>Prepare for IMO 2020</b>	<ul style="list-style-type: none"><li>• First of three CLX vessels to get scrubbers is in dry-dock</li><li>• Board approved scrubbers on three additional vessels</li></ul>
	<b>De-lever the balance sheet beginning in 2020</b>	<ul style="list-style-type: none"><li>• 1Q19 leverage covenant level below 3.0x</li><li>• Cash flow remains strong</li></ul>
	<b>Organic growth opportunities</b>	<ul style="list-style-type: none"><li>• Build upon Pacific hub and U.S. West Coast operations</li><li>• Niche opportunities in Logistics</li><li>• Additional terminal in SSAT portfolio</li></ul>

# New Arrivals

***April was busy with the Kaimana Hila entering service and the new gantry cranes arriving at the Sand Island terminal.***



*Kaimana Hila entering the Port of Seattle.*



*New gantry cranes for Sand Island terminal.*

# Update on IMO 2020 Strategy

***Matson will be 100% compliant with IMO 2020 guidelines.***

- Commenced dry-dock and installation of scrubber on the first of three CLX vessels
  - Expect two of three CLX vessels to be back in service with scrubbers by year end
  - Expect third CLX vessel to be in dry-dock at year end
- Board has approved the installation of three additional scrubbers (two of the remaining CLX vessels and *Maunalei*)
  - Expect the installation on all three vessels to be complete by the end of 2020
  - Scrubber on *Maunalei* will allow it to operate as a reserve vessel for the CLX and Alaska services
  - Cost per scrubber installation is approximately \$10 million

# Hawaii Service

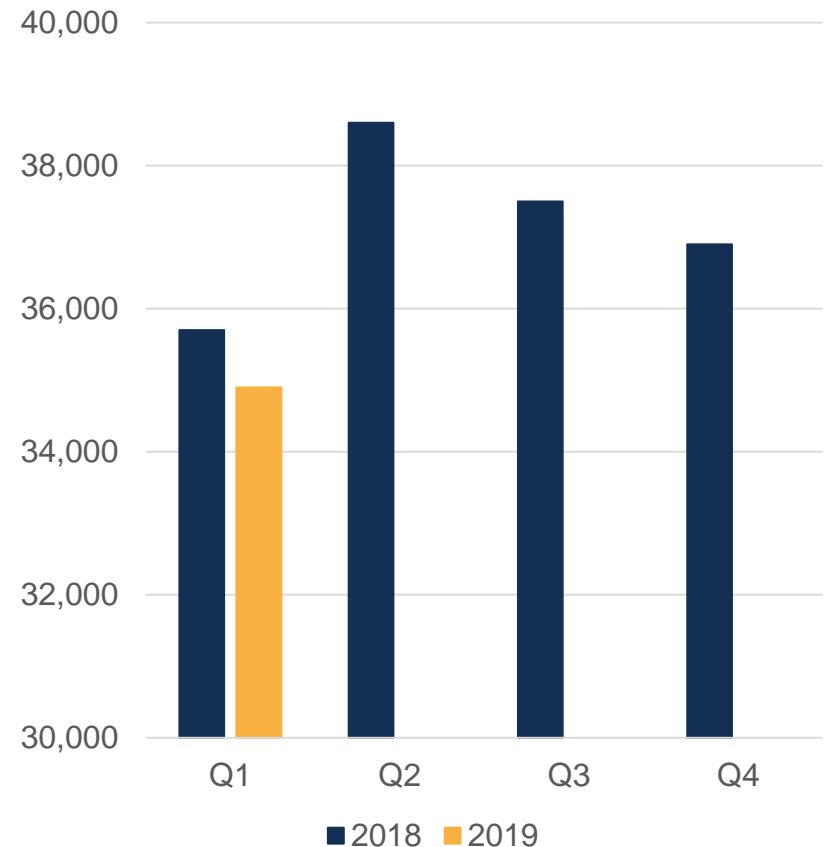
## First Quarter 2019 Performance

- Container volume declined 2.2% YoY
  - One less WB sailing
  - Weather-related impacts
- Flattish container market environment
- Hawaii economy showing modest growth; some softening economic factors
  - Construction activity holding steady

## Full Year 2019 Outlook

- Expect volume to approximate the level achieved in 2018, reflecting modest economic growth and stable market share

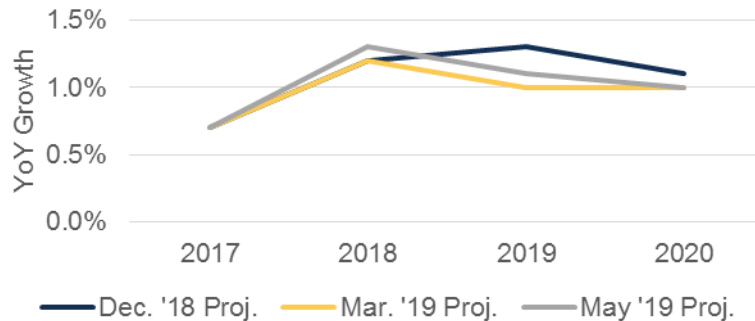
## Container Volume (FEU Basis)



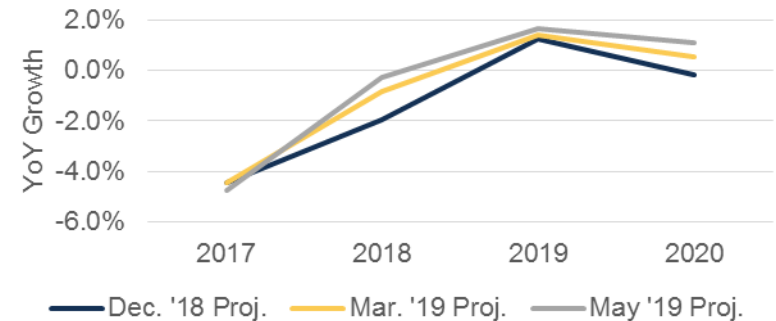
# Hawaii Economic Indicators

**Hawaii's economic growth has slowed, but most economic indicators remain favorable for continued growth.**

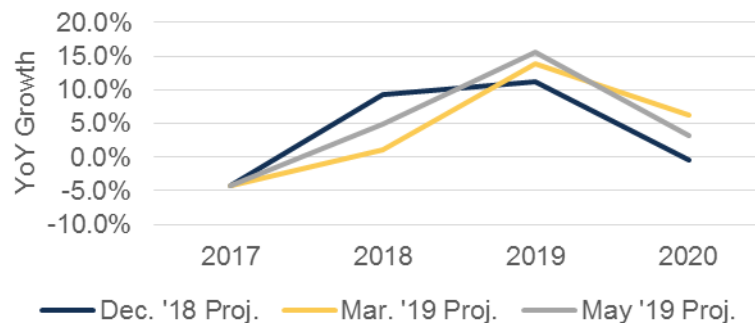
## Real GDP Growth



## Construction Jobs Growth



## Real Building Permits Growth



*“The construction industry has now settled on a plateau. Last year’s 21% expansion of total permits, as well as anticipated gains for the next two years, will support a continuing high level of industry activity. Support will come from resort, residential, and public-sector projects.”*

– UHERO, May 3, 2019

Source: [https://uhero.hawaii.edu/assets/19Q2\\_StateUpdate\\_Public.pdf](https://uhero.hawaii.edu/assets/19Q2_StateUpdate_Public.pdf)



# China Expedited Service (CLX)

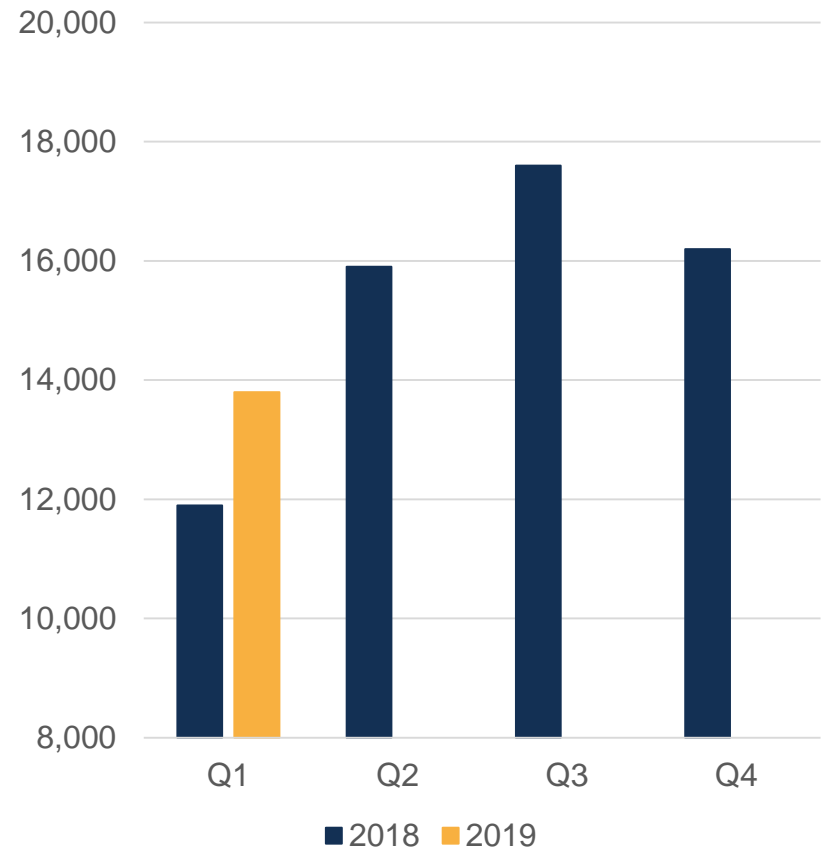
## First Quarter 2019 Performance

- Container volume increased 16.0% YoY
  - One additional sailing
  - Stronger volume post Lunar New Year
- Continued to realize a sizeable rate premium

## Full Year 2019 Outlook

- Expect volatility in transpacific capacity as it adjusts to demand as trade flow normalizes
- Expect CLX volume to approximate 2018 level
  - Expect stronger 1H19 than last year
  - 3Q19 and 4Q19 to reflect more traditional level of activity
- CLX average rates to approach the levels achieved in 2018
- Expect another strong year for Matson's highly differentiated service

## Container Volume (FEU Basis)



# Guam Service

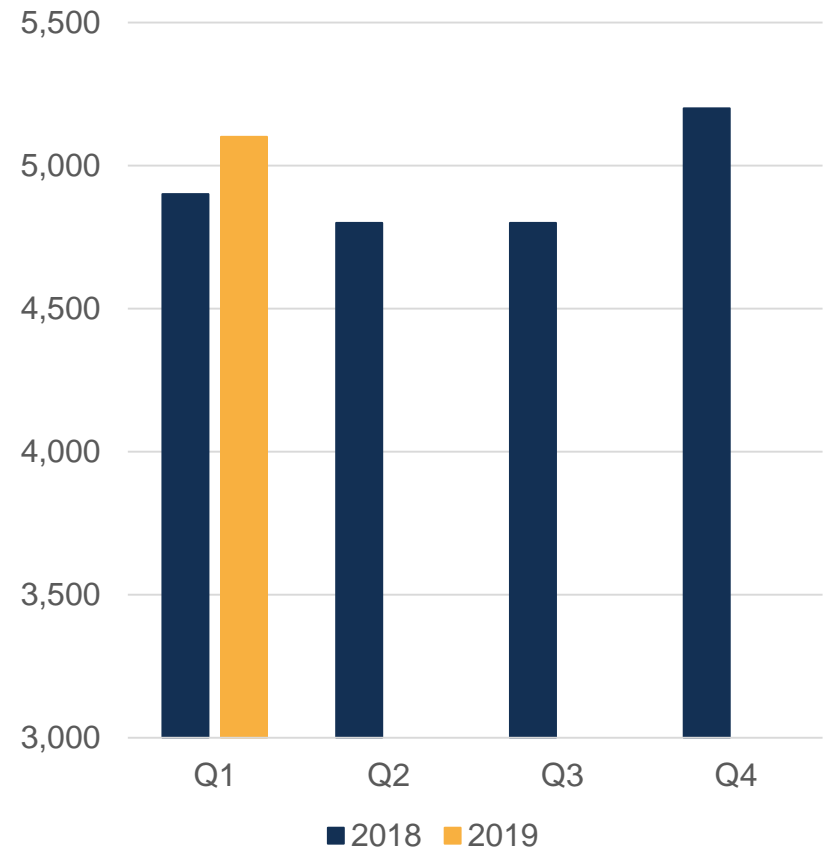
## First Quarter 2019 Performance

- Container volume increased 4.1%
  - Primarily due to typhoon relief-related volume
- Market was flat YoY

## Full Year 2019 Outlook

- Expect modestly lower volume as highly competitive environment remains
- Matson's transit advantage expected to remain with significantly better on-time performance

## Container Volume (FEU Basis)



# Alaska Service

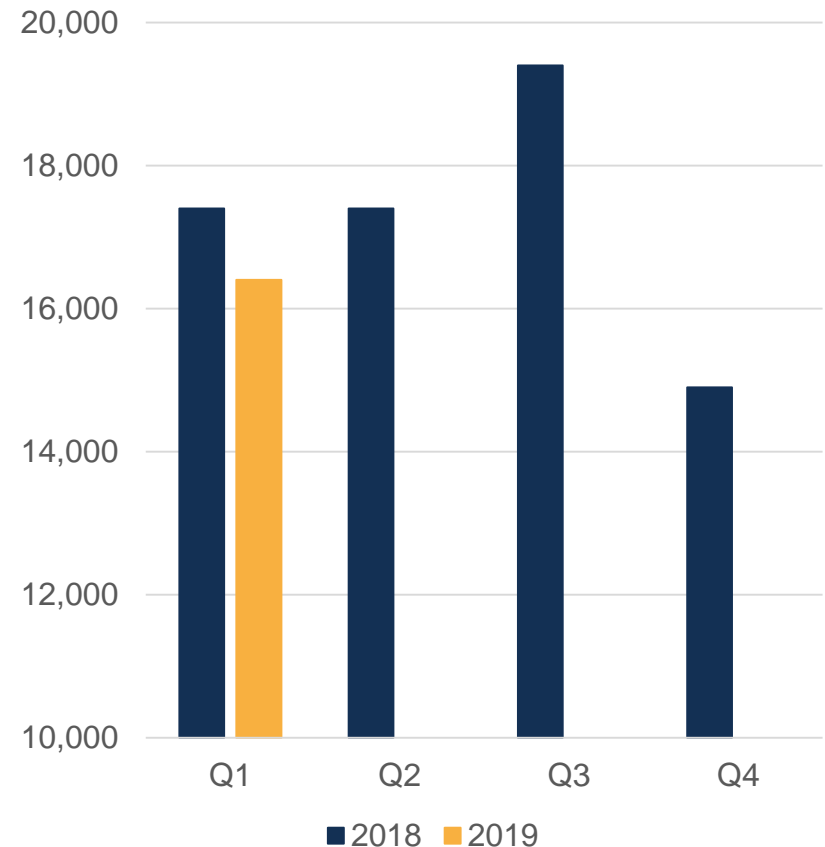
## First Quarter 2019 Performance

- Container volume decreased 5.7% YoY
  - TOTE dry-dock volume in 1Q 2018
  - One less NB sailing
- Modest market growth supported by improving economic indicators in Alaska

## Full Year 2019 Outlook

- Expect volume to be modestly higher than the level achieved in 2018
  - Improvement in NB volume as economic conditions improve
  - Stronger SB seafood harvest levels than in 2018

## Container Volume (FEU Basis)



Note: 1Q 2018 volume figure includes volume related to a competitor's vessel dry-docking.

# SSAT Joint Venture

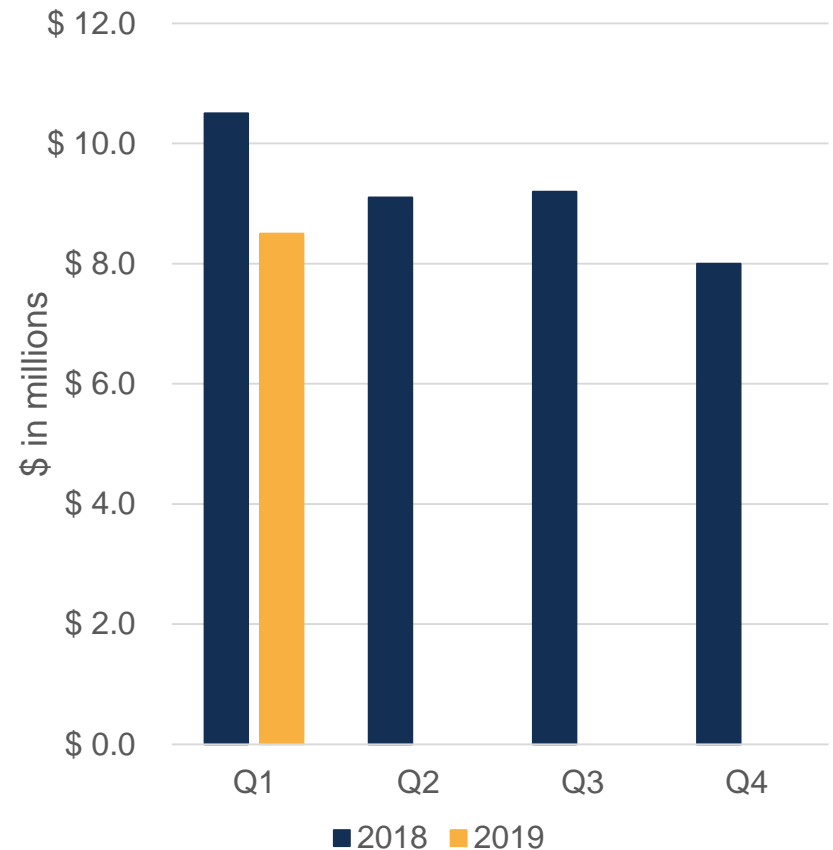
## First Quarter 2019 Performance

- Terminal joint venture contribution was \$8.5 million, \$2.0 million lower than last year
  - YoY decline primarily due to the absence of favorable one-time items in the year ago period
  - Higher YoY lift volume

## Full Year 2019 Outlook

- Expect terminal joint venture contribution to be lower than the 2018 level, which was a historic high
  - Normalization of import volume on the U.S. West Coast
- SSAT is the premier stevedore on the U.S. West Coast
- In April, Matson moved to T-5 in Seattle, SSAT's 8<sup>th</sup> terminal facility on the U.S. West Coast

## Equity in Income of Joint Venture



Note: 1Q 2018 equity in income of JV includes favorable one-time items.

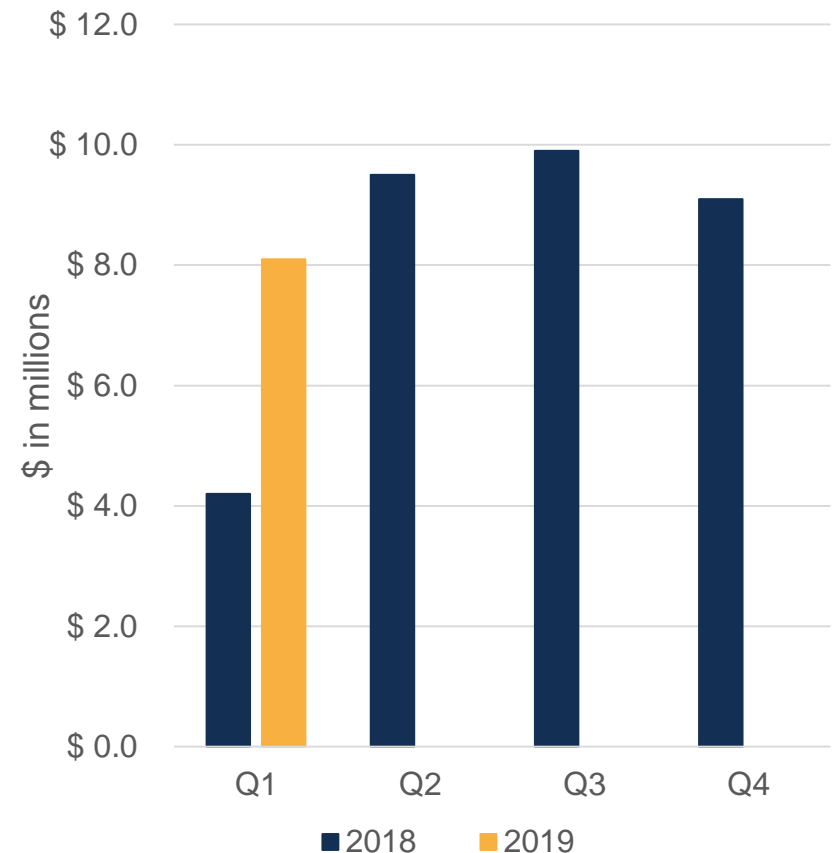
## First Quarter 2019 Performance

- Operating income increased \$3.9 million YoY to \$8.1 million
  - All service lines performed well
  - YoY increase primarily driven by transportation brokerage and Span Alaska

## Full Year 2019 Outlook

- Expect FY 2019 operating income to be moderately higher than 2018 level of \$32.7 million, which was a historic high
- Expect 2Q 2019 operating income to be modestly higher than the \$9.5 million achieved in the prior year period

## Operating Income



# Financial Results – Summary Income Statement

(\$ in millions, except per share data)	First Quarter			
	Quarters Ended 3/31		Δ	
	2019	2018	\$	%
<b>Revenue</b>				
Ocean Transportation	\$ 397.9	\$ 379.3	\$ 18.6	4.9%
Logistics	134.5	132.1	2.4	1.8%
<b>Total Revenue</b>	<b>\$ 532.4</b>	<b>\$ 511.4</b>	<b>\$ 21.0</b>	<b>4.1%</b>
<b>Operating Income</b>				
Ocean Transportation	\$ 9.4	\$ 24.5	(\$ 15.1)	-61.6%
Logistics	8.1	4.2	3.9	92.9%
<b>Total Operating Income</b>	<b>\$ 17.5</b>	<b>\$ 28.7</b>	<b>(\$ 11.2)</b>	<b>-39.0%</b>
Interest Expense	( 4.6)	( 5.0)		
Other income (expense), net	0.6	0.8		
Income Taxes	( 1.0) <sup>(1)</sup>	( 10.3) <sup>(2)</sup>		
<b>Net Income</b>	<b>\$ 12.5</b>	<b>\$ 14.2</b>		
<b>GAAP EPS, diluted</b>	<b>\$ 0.29</b>	<b>\$ 0.33</b>		
Depreciation and Amortization (incl. dry-dock amortization)	\$ 31.2	\$ 32.6	(\$ 1.4)	(4.3)%
EBITDA	\$ 49.3	\$ 62.1	(\$ 12.8)	(20.6)%

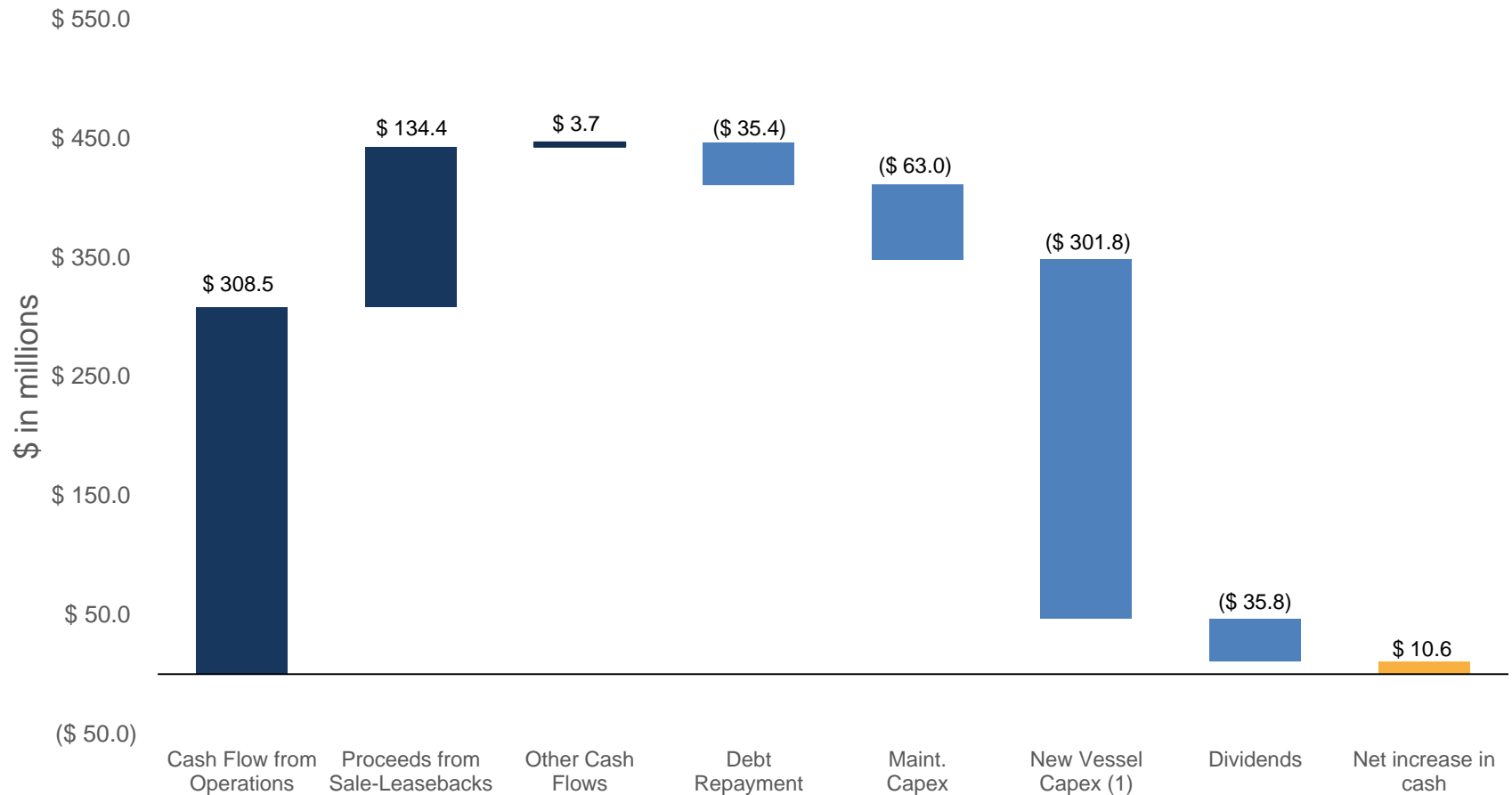
See the Addendum for a reconciliation of GAAP to non-GAAP Financial Metrics.

(1) Includes a non-cash tax expense reversal of \$2.9 million resulting from discrete adjustments in applying the provisions of the Tax Cuts and Jobs Act of 2017 ("Tax Act").

(2) Includes a non-cash tax expense of \$3.3 million resulting from discrete adjustments in applying the provisions of the Tax Act.

# Cash Generation and Uses of Cash

## Last Twelve Months Ended March 31, 2019



(1) Includes capitalized interest and owner's items.

# Financial Results – Summary Balance Sheet

(\$ in millions)	March 31, 2019	December 31, 2018
<b>ASSETS</b>		
Cash and cash equivalents	\$ 15.4	\$ 19.6
Other current assets	291.2	298.8
<b>Total current assets</b>	<b>306.6</b>	<b>318.4</b>
Investment in Terminal Joint Venture	91.3	87.0
Property and equipment, net	1,386.2	1,366.6
Intangible assets, net	211.2	214.0
Goodwill	327.8	327.8
Other long-term assets	353.7	116.6
<b>Total assets</b>	<b>\$ 2,676.8</b>	<b>\$ 2,430.4</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current portion of debt	\$ 45.2	\$ 42.1
Other current liabilities	365.9	328.7
<b>Total current liabilities</b>	<b>411.1</b>	<b>370.8</b>
Long-term debt	822.9	814.3
Other long-term liabilities	679.8	490.0
<b>Total long-term liabilities</b>	<b>1,502.7</b>	<b>1,304.3</b>
<b>Total shareholders' equity</b>	<b>763.0</b>	<b>755.3</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,676.8</b>	<b>\$ 2,430.4</b>

## Debt Levels

- Total debt of \$868.1 million
- Net debt of \$852.7 million
- Net debt-to-LTM EBITDA of 3.0x

## New Lease Accounting

- Operating lease right of use assets in long-term assets
- Short-term and long-term operating lease liabilities
- No impact on leverage covenants

See the Addendum for a reconciliation of GAAP to non-GAAP Financial Metrics.



# New Vessel Payments and Percent of Completion

## Vessel Construction Expenditures

	FY 2019
(\$ in millions)	1Q <sup>(1)</sup>
Cash Capital Expenditures	\$ 16.2
Capitalized Interest	4.7
Capitalized Vessel Construction Expenditures	\$ 20.9

## Updated Vessel Timing and Percent of Completion

	Percent of Completion <sup>(2)</sup>	Current Delivery Timing
<i>Lurline</i>	85%	4Q '19
<i>Matsonia</i>	18%	3Q '20



House top installation on *Lurline*, April 2019.

## Actual and Estimated Vessel Progress Payments<sup>(3)</sup>

(\$ in millions)	Cumulative through 03/31/19	Remaining 9-months 2019	FY 2020	Total
Two Aloha Class Containerships <sup>(4)</sup>	\$ 400.3	\$ 4.3	\$ 4.0	\$ 408.6
Two Kanaloa Class Con-Ro Vessels	290.7	168.2	57.8	516.7
Total New Vessel Progress Payments	\$ 691.0	\$ 172.5	\$ 61.8	\$ 925.3

(1) Excludes \$4.0 million in restricted cash related to final milestone payment and other cost items on *Kaimana Hila*.

(2) As of May 3, 2019.

(3) Excludes owner's items, capitalized interest and other cost items associated with final milestone payments.

(4) Remaining progress payments on Aloha Class vessels held in restricted cash on balance sheet.

# 2019 Outlook

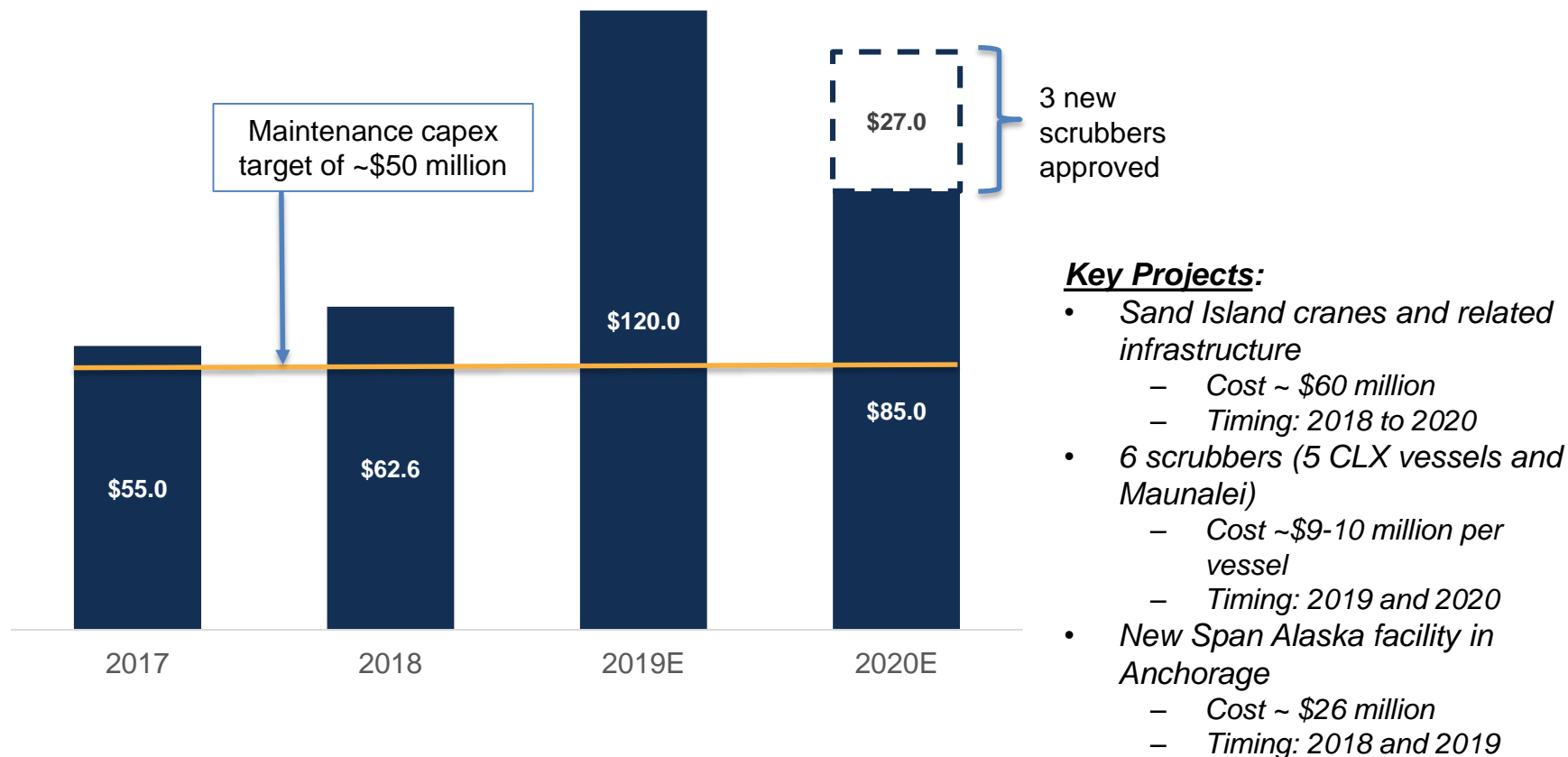
## FY 2019 Outlook Items

	Full Year	Second Quarter
<b>Operating Income:</b>		
Ocean Transportation	To approximate \$131.1 million achieved in FY 2018 after adjusting 2018 result for full year impact of vessel sale-leaseback	Moderately lower than the 2Q18 level of \$36.5 million
Logistics	Moderately higher than FY 2018 level of \$32.7 million	Modestly higher than the 2Q18 level of \$9.5 million
<b>Depreciation and Amortization</b>	Approximately \$130 million, including \$35 million in dry-dock amortization	-
<b>EBITDA</b>	To approximate \$288 million or higher than 2018 level after adjusting 2018 result for full year impact of vessel sale-leaseback	-
<b>Other Income/(Expense)</b>	Approximately \$2.7 million	-
<b>Interest Expense</b> (excluding capitalized interest)	Approximately \$25 million	-
<b>GAAP Effective Tax Rate</b>	Approximately 26%, excluding positive non-cash tax adjustment of \$2.9 million in 1Q 2019	-

# Actual and Estimated Other Capital Expenditures

(\$ in millions)

## Actual and Estimated Other Capital Expenditures (including maintenance capex)<sup>(1)</sup>



(1) Cost and timing of projects subject to change.



# Matson®

*Appendix*

# Appendix – Non-GAAP Measures

Matson reports financial results in accordance with U.S. generally accepted accounting principles (“GAAP”). The Company also considers other non-GAAP measures to evaluate performance, make day-to-day operating decisions, help investors understand our ability to incur and service debt and to make capital expenditures, and to understand period-over-period operating results separate and apart from items that may, or could, have a disproportional positive or negative impact on results in any particular period. These non-GAAP measures include, but are not limited to, Earnings Before Interest, Income Taxes, Depreciation and Amortization (“EBITDA”), and Net Debt/EBITDA.

## NET DEBT RECONCILIATION

(In millions)	March 31, 2019
Total Debt:	\$ 868.1
Less: Cash and cash equivalents	(15.4)
Net Debt	<u>\$ 852.7</u>

## EBITDA RECONCILIATION

(In millions)	Three Months Ended			Last Twelve Months
	March 31,			
	2019	2018	Change	
Net Income	\$ 12.5	\$ 14.2	\$ (1.7)	\$ 107.3
Add: Income taxes	1.0	10.3	(9.3)	29.4
Add: Interest expense	4.6	5.0	(0.4)	18.3
Add: Depreciation and amortization	23.1	23.4	(0.3)	93.2
Add: Dry-dock amortization	8.1	9.2	(1.1)	36.3
EBITDA (1)	<u>\$ 49.3</u>	<u>\$ 62.1</u>	<u>\$ (12.8)</u>	<u>\$ 284.5</u>

- (1) EBITDA is defined as the sum of net income plus income taxes, interest expense and depreciation and amortization (including deferred dry-docking amortization). EBITDA should not be considered as an alternative to net income (as determined in accordance with GAAP), as an indicator of our operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Our calculation of EBITDA may not be comparable to EBITDA as calculated by other companies, nor is this calculation identical to the EBITDA used by our lenders to determine financial covenant compliance.