

An aerial photograph of a large container ship sailing on the ocean. The ship is viewed from the front, showing its bow and the deck covered with stacks of white and grey containers. The ship is moving through the water, leaving a white wake. The background shows a dark blue sea and a hazy horizon.

# Matson<sup>®</sup>

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## *Third Quarter 2018 Earnings Conference Call*

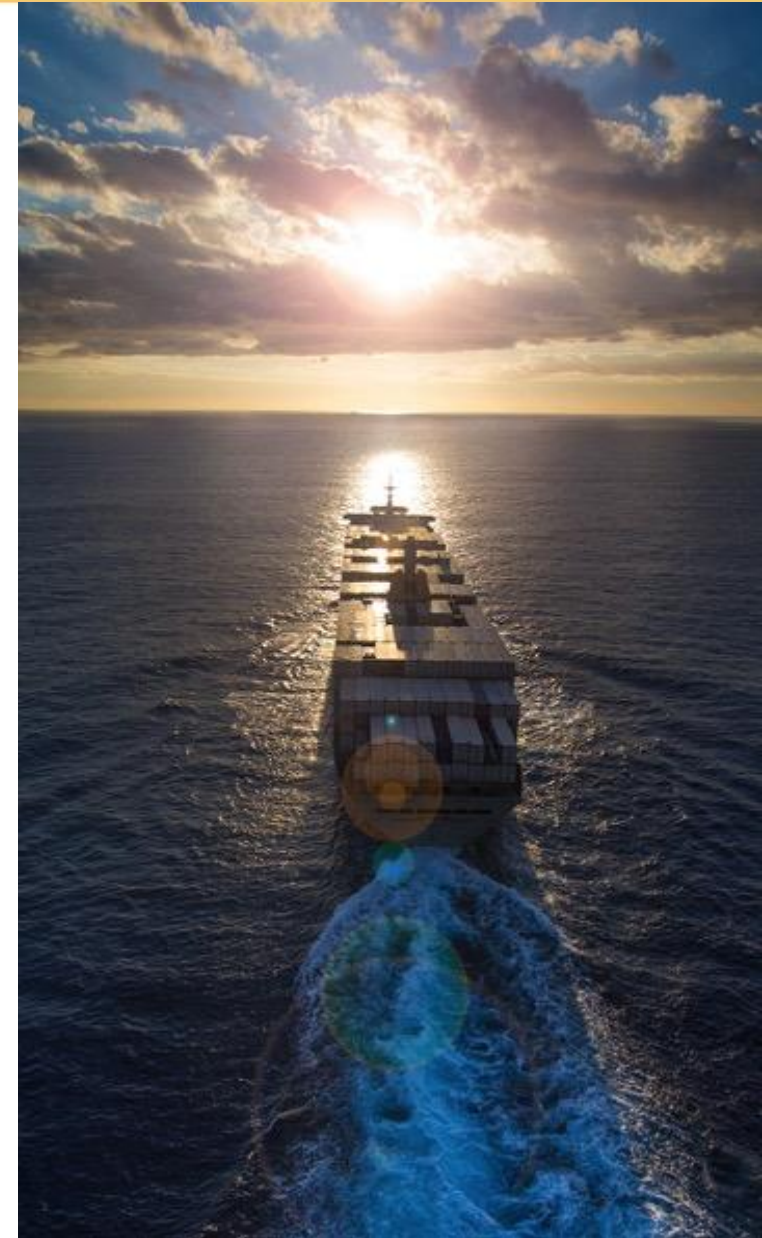
November 5, 2018

# Forward-Looking Statements

Statements made during this call and 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 today, November 5, 2018.

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 13-21 of our 2017 Form 10-K filed on February 23, 2018, and other subsequent filings by Matson with the SEC. Statements made during this call and presentation are not guarantees of future performance.

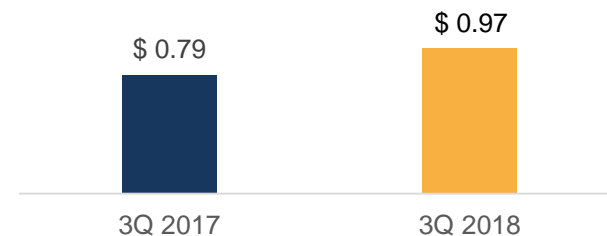
We do not undertake any obligation to update our forward-looking statements.



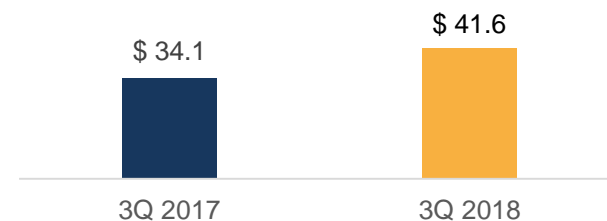
# Opening Remarks

- Matson's results in 3Q18 were in line with expectations
  - Favorable contributors include:
    - Higher rates in China
    - Higher contribution from SSAT
    - Higher contribution from Logistics
    - Steady performance in Hawaii
  - Unfavorable trends include:
    - Timing of fuel surcharge collections
    - Ongoing competitive dynamics in Guam
    - Weaker-than-expected SB seafood season in Alaska
- FY 2018 Outlook:
  - Raises Ocean Transportation outlook
  - Maintains higher Logistics outlook

## EPS, Fully Diluted



## Net Income (\$ in millions)



## EBITDA (\$ in millions)



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



# *The Daniel K. Inouye*

**We welcome the first of four new ships into the fleet with the arrival of the *Daniel K. Inouye*.**



# Hawaii Service

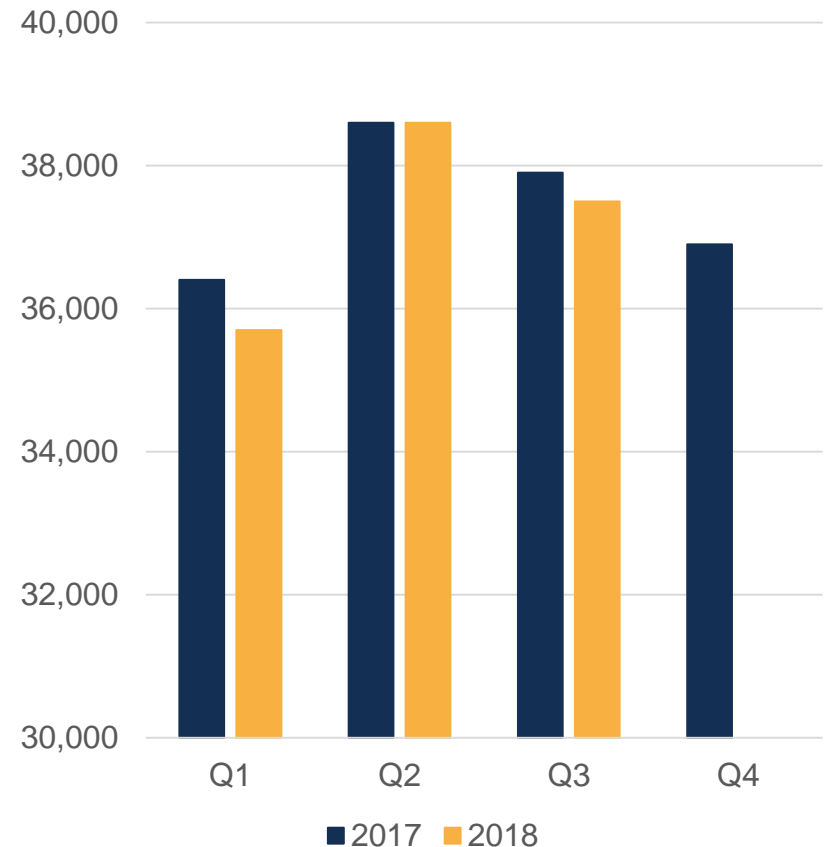
## Third Quarter 2018 Performance

- Container volume decreased 1.1% YoY
  - One less sailing
  - Stable market share
- Favorable ongoing economic conditions in Hawaii

## Full Year 2018 Outlook

- Expect volume to approximate the level achieved in 2017 as Hawaii economy remains solid

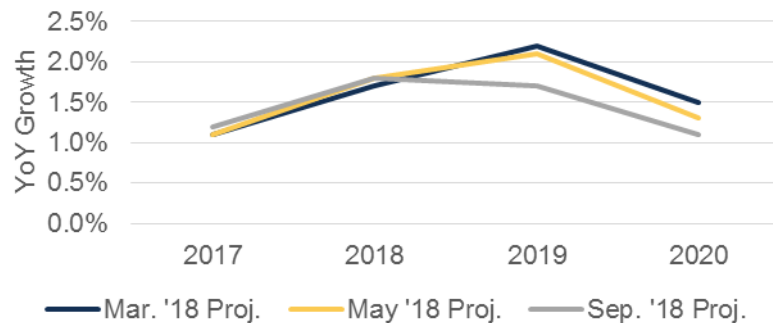
## Container Volume (FEU Basis)



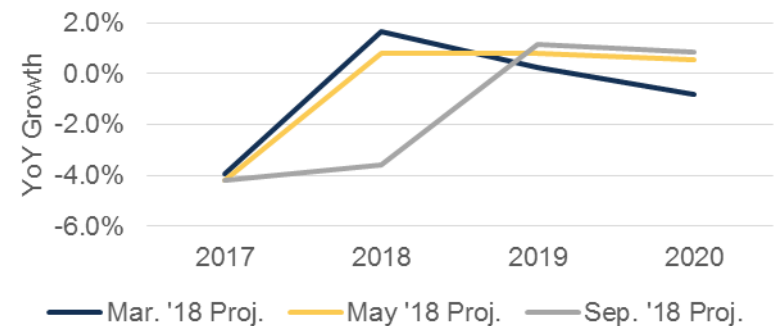
# Hawaii Economic Indicators

**Hawaii's economic trajectory remains favorable, and the construction cycle over the medium-term continues to be positive.**

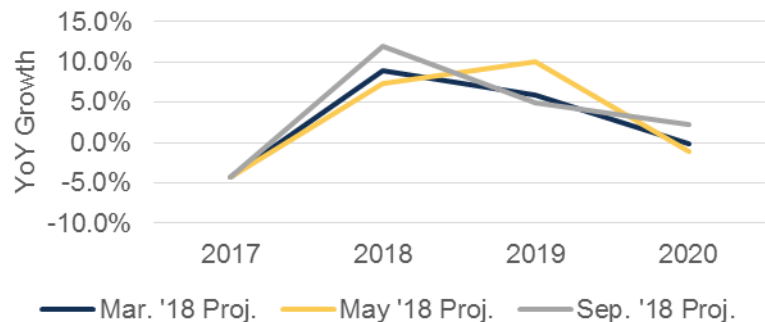
## Real GDP Growth



## Construction Jobs Growth



## Real Building Permits Growth



*"...[T]he fundamentals underpinning the local economy look favorable. Global tourism continues to power forward, and there remains a healthy pipeline of construction work that should stabilize the industry near its current level. And even with the recent job weakness, Hawaii continues to enjoy its lowest unemployment in many years."*

– UHERO, September 21, 2018

Source: [http://uhero.hawaii.edu/assets/18Q3\\_SU\\_Public.pdf](http://uhero.hawaii.edu/assets/18Q3_SU_Public.pdf)

# China Expedited Service (CLX)

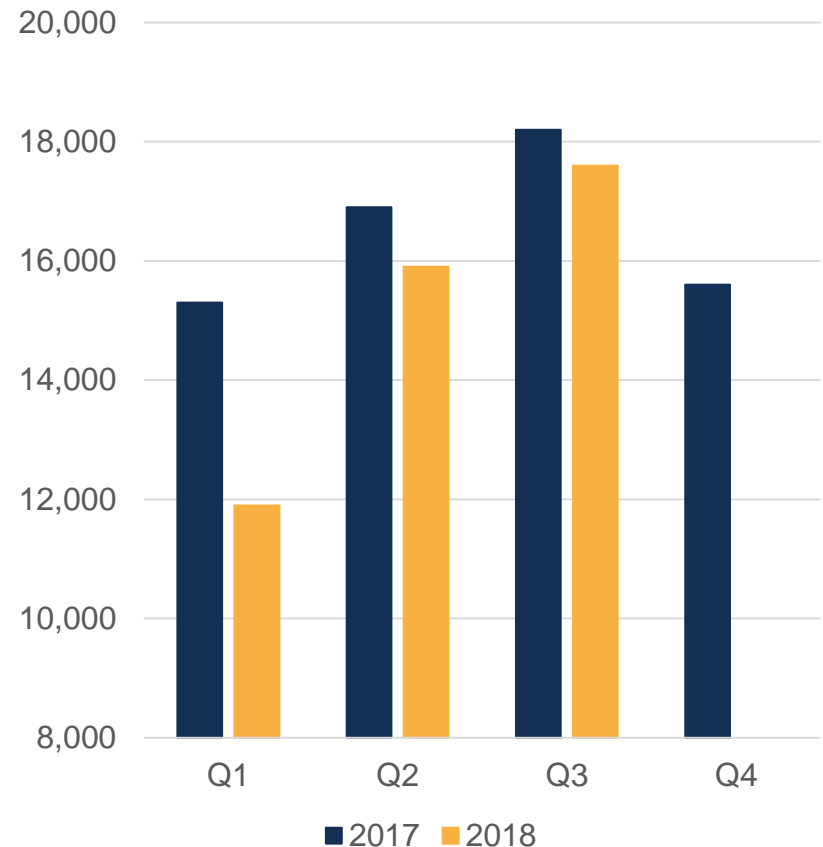
## Third Quarter 2018 Performance

- Every CLX vessel was full
- Container volume decreased 3.3% YoY
  - 1 dry-dock return voyage in 3Q17
- Continued to realize a sizeable rate premium

## Full Year 2018 Outlook

- Transpacific capacity in excess of demand in 1H; nearing capacity-demand balance in 2H
  - Expect CLX service to have a stronger fourth quarter than normal
- Expect average rate to be higher than the level achieved in 2017
- Expect volume to be modestly lower than 2017 level, which included multiple dry-dock return voyages

## Container Volume (FEU Basis)



# China – U.S. Tariffs

- In July/August, U.S. implemented 25% tariff on \$50 billion worth of products
- In September, U.S. implemented initial 10% tariff on additional \$200 billion worth of products; tariff moves to 25% on January 1
  - Finished garments and footwear not part of proposed tariffs
- What our customers are saying:
  - Believe the 25% tariff on January 1 will proceed
  - Have advanced some cargo ahead of tariff step-up
  - Exploring manufacturing location alternatives for the long-term
    - Will take time to adjust supply chains
    - Majority of cargo likely to be sourced from other Asia origins
- Transpacific vessel supply-demand is single biggest factor to weigh
  - Potential risk related to pull-forward of volume
- Significant uncertainty remains



# Guam Service

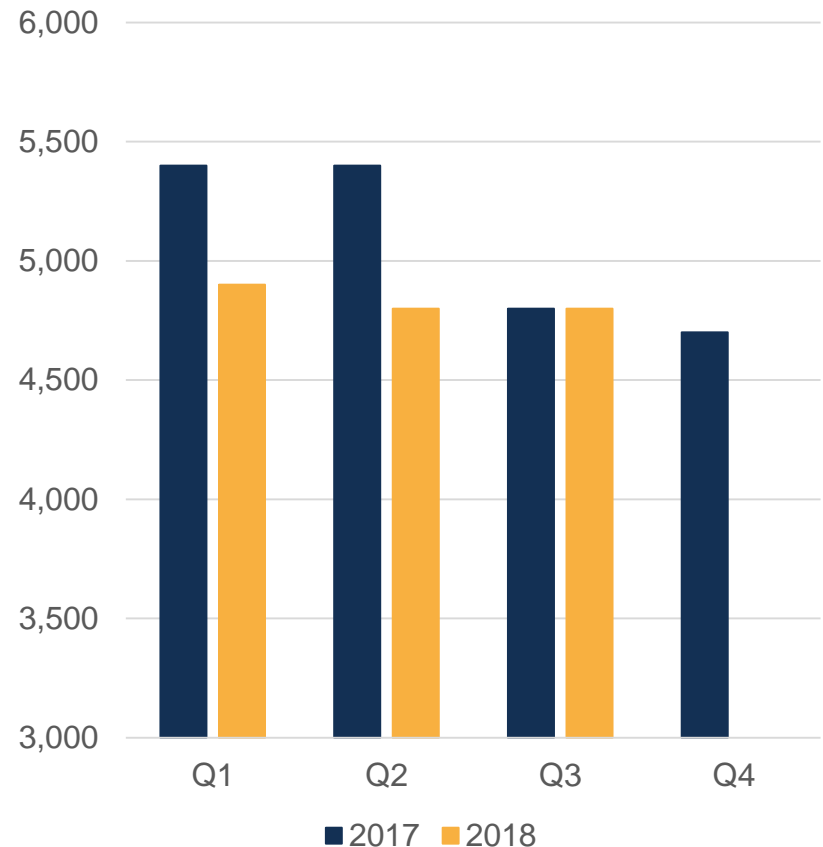
## Third Quarter 2018 Performance

- Container volume was flat YoY and sequentially
  - Continued competitive pressure from APL
- Market was flat YoY

## Full Year 2018 Outlook

- Expect heightened competitive environment and lower volume
- Matson's transit advantage expected to remain with superior on-time performance

## Container Volume (FEU Basis)



# Alaska Service

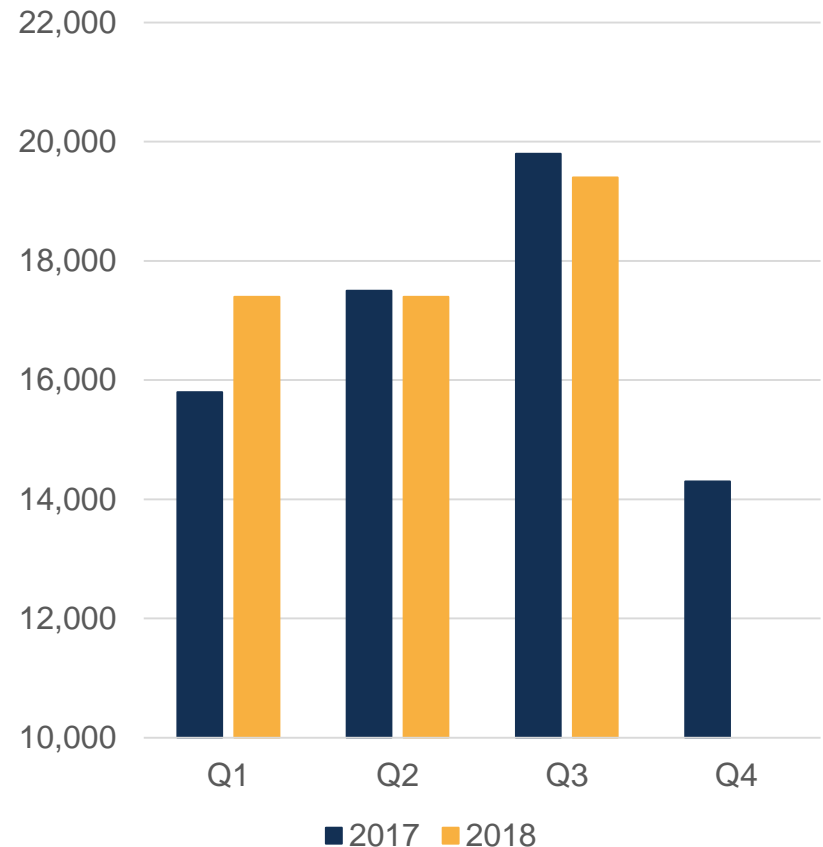
## Third Quarter 2018 Performance

- Container volume decreased 2.0% YoY
  - Weaker-than-expected SB seafood season
  - Increase in NB volume
- Signs of Alaska economy beginning to stabilize

## Full Year 2018 Outlook

- Expect FY 2018 volume to be modestly higher than the level achieved in 2017
  - Improvement in NB volume largely related to a dry-docking of a competitor's vessel
  - Weaker-than-expected SB seafood season given last year's very strong seafood harvest

## Container Volume (FEU Basis)



*Note:* 1Q 2018 and 4Q 2017 volume figures include volume related to a competitor's vessel dry-docking.

# SSAT Joint Venture

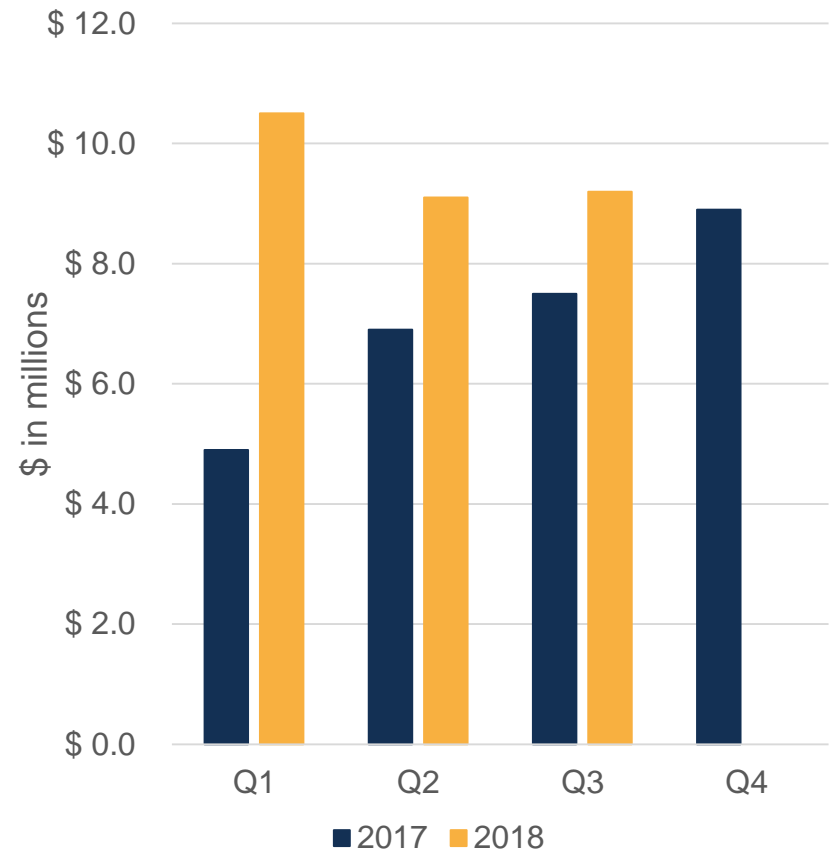
## Third Quarter 2018 Performance

- Terminal joint venture contribution was \$9.2 million, \$1.7 million higher than last year
  - Increase primarily attributable to increased lift volume

## Full Year 2018 Outlook

- Expect FY 2018 terminal joint venture contribution to be higher than the 2017 level
  - Expect to continue to benefit from launch of new global shipping alliances
  - SSAT's reputation as the best operator on the US West Coast
  - Strong import and export volume on the US West Coast

## Equity in Income of Joint Venture



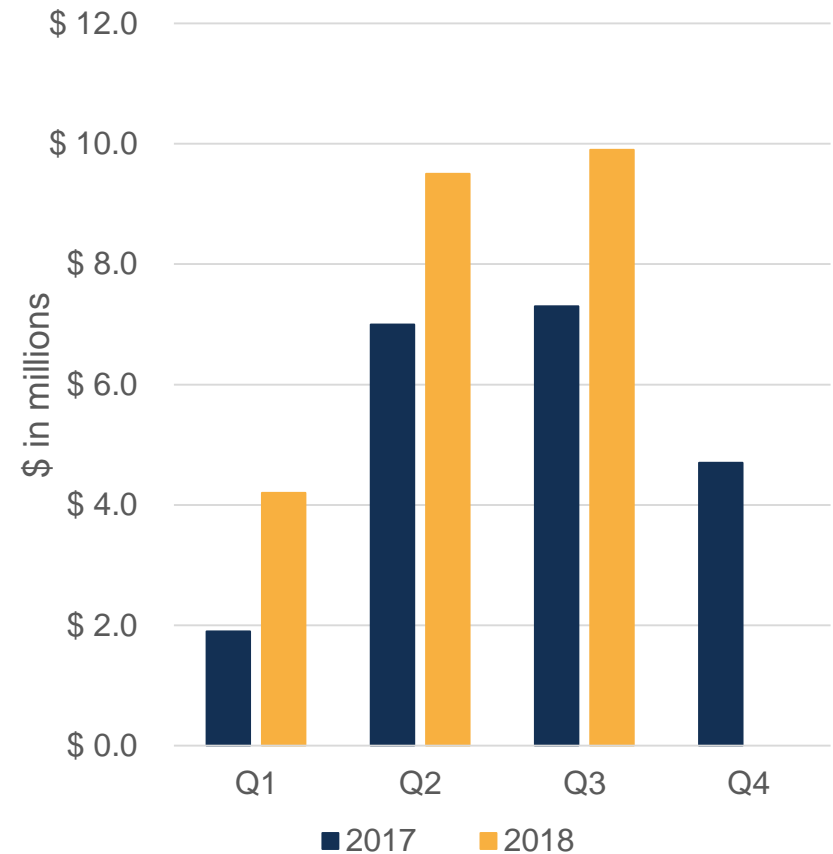
## Third Quarter 2018 Performance

- Operating income increased \$2.6 million YoY to \$9.9 million
  - Improved performance across all service lines
  - Tight truck market plays to Matson Logistics' strengths in customer service
- Span performing well in a flat market

## 2018 Outlook

- Expect full year 2018 operating income to approximate \$30 million

## Operating Income



# Financial Results – Summary Income Statement

(\$ in millions, except per share data)	Year-to-Date				Third Quarter			
	YTD Ended 09/30		Δ		Quarters Ended 9/30		Δ	
	2018	2017	\$	%	2018	2017	\$	%
<b>Revenue</b>								
Ocean Transportation	\$ 1,223.2	\$ 1,181.9	\$ 41.3	3.5%	\$ 437.3	\$ 419.2	\$ 18.1	4.3%
Logistics	434.7	348.9	85.8	24.6%	152.1	124.7	27.4	22.0%
<b>Total Revenue</b>	<b>\$ 1,657.9</b>	<b>\$ 1,530.8</b>	<b>\$ 127.1</b>	<b>8.3%</b>	<b>\$ 589.4</b>	<b>\$ 543.9</b>	<b>\$ 45.5</b>	<b>8.4%</b>
<b>Operating Income</b>								
Ocean Transportation	\$ 109.7	\$ 106.3	\$ 3.4	3.2%	\$ 48.7	\$ 51.0	(\$ 2.3)	-4.5%
Logistics	23.6	16.2	7.4	45.7%	9.9	7.3	2.6	35.6%
<b>Total Operating Income</b>	<b>\$ 133.3</b>	<b>\$ 122.5</b>	<b>\$ 10.8</b>	<b>8.8%</b>	<b>\$ 58.6</b>	<b>\$ 58.3</b>	<b>\$ 0.3</b>	<b>0.5%</b>
Depreciation and Amortization (incl. dry-dock amortization)	\$ 97.7	\$ 109.4	(\$ 11.7)	-10.7%	\$ 32.2	\$ 34.4	(\$ 2.2)	-6.4%
Interest Expense	\$ 14.4	\$ 18.8	(\$ 4.4)		\$ 4.4	\$ 6.2	(\$ 1.8)	
Income Tax Rate	26.8% <sup>(1)</sup>	38.2%			24.2%	38.7%		
<b>Net Income</b>	<b>\$ 88.4</b>	<b>\$ 65.1</b>	<b>\$ 23.3</b>		<b>\$ 41.6</b>	<b>\$ 34.1</b>	<b>\$ 7.5</b>	
<b>EPS, diluted</b>	<b>\$ 2.06</b>	<b>\$ 1.50</b>	<b>\$ 0.56</b>		<b>\$ 0.97</b>	<b>\$ 0.79</b>	<b>\$ 0.18</b>	
EBITDA	\$ 232.9	\$ 233.5	(\$ 0.6)	-0.3%	\$ 91.5	\$ 96.2	(\$ 4.7)	-4.9%

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

(1) Includes a non-cash tax adjustment of \$3.1 million resulting from a reduction in the alternative minimum tax receivable under the Tax Cuts and Jobs Act.



# Financial Results – Summary Balance Sheet

(\$ in millions)	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12.1	\$ 19.8
Other current assets	289.0	246.2
<b>Total current assets</b>	<b>301.1</b>	<b>266.0</b>
Investment in Terminal Joint Venture	79.1	93.2
Property and equipment, net	1,347.2	1,165.7
Intangible assets, net	216.8	225.2
Goodwill	323.7	323.7
Other long-term assets	153.3	173.7
<b>Total assets</b>	<b>\$ 2,421.2</b>	<b>\$ 2,247.5</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current portion of debt	\$ 42.1	\$ 30.8
Other current liabilities	283.6	255.5
<b>Total current liabilities</b>	<b>325.7</b>	<b>286.3</b>
Long-term debt	866.0	826.3
Other long-term liabilities	485.8	456.7
<b>Total long-term liabilities</b>	<b>1,351.8</b>	<b>1,283.0</b>
<b>Total shareholders' equity</b>	<b>743.7</b>	<b>678.2</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,421.2</b>	<b>\$ 2,247.5</b>

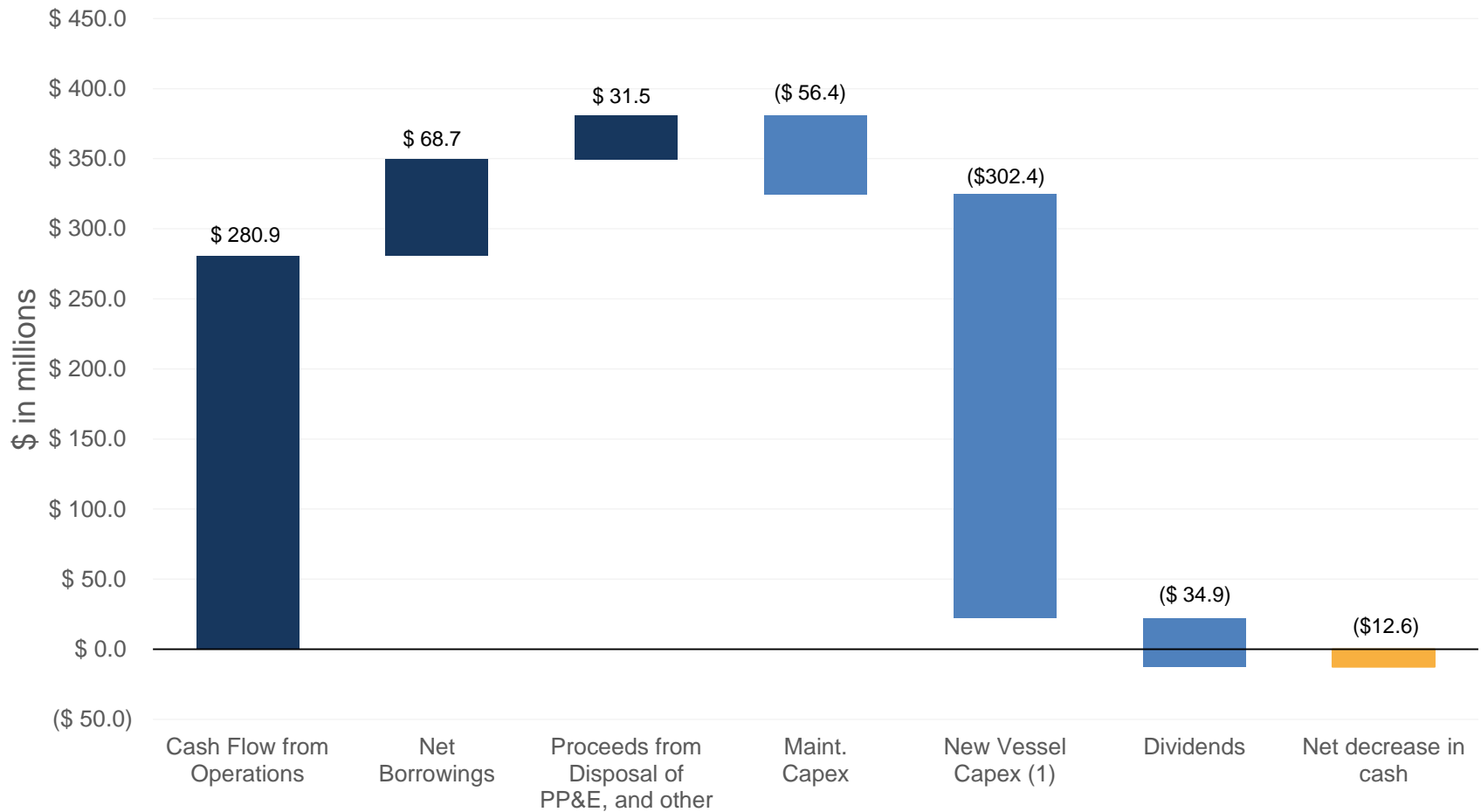
## Debt Levels

- Total debt of \$908.1 million
- Net debt of \$896.0 million
- Net debt-to-LTM EBITDA of 3.0x

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

# Cash Generation and Uses of Cash

## Last Twelve Months Ended September 30, 2018



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

# New Vessel Payments and Percent of Completion

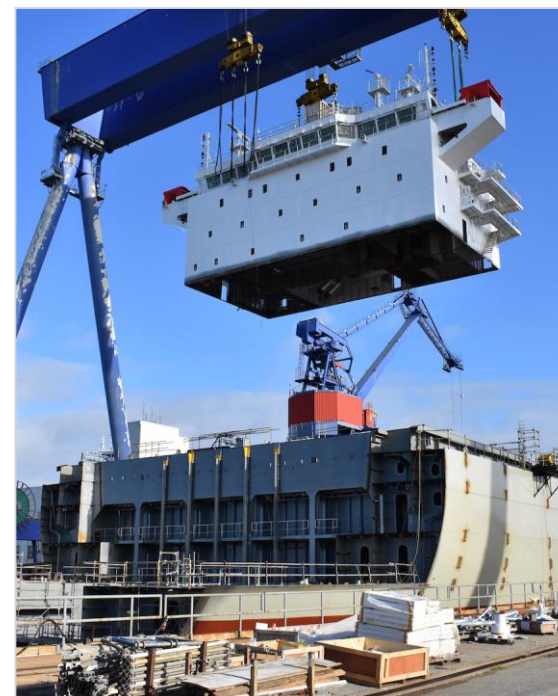
## Vessel Construction Expenditures

(\$ in millions)	FY 2018		
	1Q	2Q	3Q
Cash Capital Expenditures	\$ 54.0	\$ 104.6	\$ 50.6
Capitalized Interest	3.7	4.5	5.2
Capitalized Vessel Construction Expenditures	\$ 57.7	\$ 109.1	\$ 55.8

## Updated Vessel Timing and Percent of Completion

	Percent of Completion <sup>(1)</sup>	Delivery Timing	
		Previous	Current
<i>Kaimana Hila</i>	83%	1Q '19	1Q '19
<i>Lurline</i>	57%	4Q '19	4Q '19
<i>Matsonia</i>	10%	2Q '20	4Q '20

(1) As of November 1, 2018.



Installation of the house on the *Kaimana Hila* at the Philly Shipyard, August 2018.

## Actual and Estimated Vessel Progress Payments

(\$ in millions)	Cumulative through 12/31/17	Fiscal Year Ending December 31,			
		2018	2019	2020	Total
Two Aloha Class Containerships	\$ 253.8	\$ 137.3	\$ 19.8	\$ 0.0	\$ 410.9
Two Kanaloa Class Con-Ro Vessels	111.2	179.7	168.2	57.5	516.6
Total New Vessel Payments	\$ 365.0	\$ 317.0	\$ 188.0	\$ 57.5	\$ 927.5

## FY 2018 Outlook Items

<b>Operating income:</b>	
Ocean Transportation	Modestly higher than \$126.4 million <sup>(1)</sup> achieved in FY 2017
Logistics	Approximately \$30 million
<b>Depreciation and Amortization</b>	Approximately \$132 million, including \$36 million in dry-dock amortization
<b>EBITDA</b>	Modestly higher than the FY 2017 level of \$296.0 million
<b>Other Income/(Expense)</b>	Approximately \$2.5 million
<b>Interest Expense</b>	Approximately \$19 million
<b>GAAP Effective Tax Rate</b>	Approximately 26% for 4Q18

(1) Reflects the \$128.8 million in Ocean Transportation Operating Income as reported in the 2017 Form 10-K filed on February 23, 2018 less the retrospective reclassification adjustment indicated on slide 19 and referenced in footnote 2 of the Form 10-Q filed on May 2, 2018.



# Matson®

*Addendum*



# Addendum – Operating Income Reconciliation

## OPERATING INCOME RECONCILIATION

	Three Months Ended				Year Ended
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	December 31, 2017
<b>Ocean Transportation (in millions)</b>					
Operating income as previously reported	\$ 14.5	\$ 39.0	\$ 54.6	\$ 20.7	\$ 128.8
Reclassification of net periodic benefit costs (1)	0.8	1.0	(3.6)	(0.6)	(2.4)
Operating income as reclassified	<u>\$ 15.3</u>	<u>\$ 40.0</u>	<u>\$ 51.0</u>	<u>\$ 20.1</u>	<u>\$ 126.4</u>

	Three Months Ended				Year Ended
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	December 31, 2017
<b>Logistics (in millions)</b>					
Operating income as previously reported	\$ 1.9	\$ 6.9	\$ 7.2	\$ 4.6	\$ 20.6
Reclassification of net periodic benefit costs (1)	—	0.1	0.1	0.1	0.3
Operating income as reclassified	<u>\$ 1.9</u>	<u>\$ 7.0</u>	<u>\$ 7.3</u>	<u>\$ 4.7</u>	<u>\$ 20.9</u>

- (1) The Company adopted *Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Benefit Cost* (“ASU 2017-07”), during the quarter ended March 31, 2018. ASU 2017-07 requires employers that sponsor defined benefit pension and post-retirement plans to present the service cost component of net benefit cost in the same income statement line item as other employee compensation costs arising from services rendered, and that only the service cost component will be eligible for capitalization. The other components of the net periodic benefit cost must be presented separately from the line item that includes the service cost component and outside of the income from operations subtotal. The Company recorded a retrospective reclassification to Ocean Transportation operating income, Logistics operating income, and to other income (expense) to conform prior year amounts to the current period presentation. There was no change to income before income taxes for all periods presented.

# Addendum – 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)	September 30, 2018
Total Debt:	\$ 908.1
Less: Cash and cash equivalents	(12.1)
Net Debt	<u>\$ 896.0</u>

## EBITDA RECONCILIATION

(In millions)	Three Months Ended September 30,			Last Twelve Months
	2018	2017	Change	
Net Income	\$ 41.6	\$ 34.1	\$ 7.5	\$ 255.3
Add: Income taxes	13.3	21.5	(8.2)	(114.6)
Add: Interest expense	4.4	6.2	(1.8)	19.8
Add: Depreciation and amortization	23.0	24.3	(1.3)	96.9
Add: Dry-dock amortization	9.2	10.1	(0.9)	38.0
EBITDA (2)	<u>\$ 91.5</u>	<u>\$ 96.2</u>	<u>\$ (4.7)</u>	<u>\$ 295.4</u>

(In millions)	Nine Months Ended September 30,		
	2018	2017	Change
Net Income	\$ 88.4	\$ 65.1	\$ 23.3
Add: Income taxes	32.4	40.2	(7.8)
Add: Interest expense	14.4	18.8	(4.4)
Add: Depreciation and amortization	70.2	73.7	(3.5)
Add: Dry-dock amortization	27.5	35.7	(8.2)
EBITDA (2)	<u>\$ 232.9</u>	<u>\$ 233.5</u>	<u>\$ (0.6)</u>

(2) 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.