

Matson, Inc.  
Form 10-K  
March 04, 2019  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from            to

Commission file number 001-34187

Matson, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: Matson, Inc. - Form 10-K

Hawaii	99-0032630
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1411 Sand Island Parkway

Honolulu, HI 96819

(Address of principal executive offices and zip code)

(808) 848-1211

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Number of shares of Common Stock outstanding at February 20, 2019:

42,826,203

Aggregate market value of Common Stock held by non-affiliates at June 30, 2018:

\$1,614,645,486

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Edgar Filing: Matson, Inc. - Form 10-K

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Documents Incorporated By Reference

Edgar Filing: Matson, Inc. - Form 10-K

The following document is incorporated by reference in Part III of the Annual Report on Form 10-K to the extent described therein: Proxy statement for the annual meeting of shareholders of Matson, Inc. to be held April 25, 2019.

---

Table of Contents

## TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1.</u>	<u>Business</u> 1
	A. <u>Company Overview</u> 1
	B. <u>Business Description</u> 2
	(1) <u>Ocean Transportation Segment</u> 2
	(2) <u>Logistics Segment</u> 9
	C. <u>Employees and Labor Relations</u> 10
	D. <u>Available Information</u> 11
<u>Item 1A.</u>	<u>Risk Factors</u> 11
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u> 20
<u>Item 2.</u>	<u>Properties</u> 20
<u>Item 3.</u>	<u>Legal Proceedings</u> 21
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 21
<u>PART II</u>	
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 22
<u>Item 6.</u>	<u>Selected Financial Data</u> 24
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 25
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 37
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u> 38
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> 76
<u>Item 9A.</u>	<u>Controls and Procedures</u> 76
	<u>Conclusion Regarding Effectiveness of Disclosure Controls and Procedures</u> 76
	<u>Internal Control over Financial Reporting</u> 77
<u>Item 9B.</u>	<u>Other Information</u> 77

PART III

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	78
	<u>A. Directors</u>	78
	<u>B. Executive Officers</u>	78
	<u>C. Corporate Governance</u>	78
	<u>D. Code of Ethics</u>	78
<u>Item 11.</u>	<u>Executive Compensation</u>	78
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	78
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	78
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	78

PART IV

<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	79
	<u>A. Financial Statements</u>	79
	<u>B. Financial Statement Schedules</u>	79
	<u>C. Exhibits Required by Item 601 of Regulation S-K</u>	79
<u>Signatures</u>		85

Table of Contents

MATSON, INC.

FORM 10-K

Annual Report for the Fiscal Year

Ended December 31, 2018

PART I

ITEM 1. BUSINESS

A. COMPANY OVERVIEW

Matson, Inc., a holding company incorporated in January 2012 in the State of Hawaii, and its subsidiaries (“Matson” or the “Company”), is a leading provider of ocean transportation and logistics services. The Company consists of two segments, Ocean Transportation and Logistics. For financial information by segment for the three years ended December 31, 2018, see Note 3 to the Consolidated Financial Statements in Item 8 of Part II below.

Ocean Transportation: Matson’s Ocean Transportation business is conducted through Matson Navigation Company, Inc. (“MatNav”), a wholly-owned subsidiary of Matson, Inc. Founded in 1882, MatNav provides a vital lifeline of ocean freight transportation services to the domestic non-contiguous economies of Hawaii, Alaska and Guam, and to other island economies in Micronesia. MatNav also operates a premium, expedited service from China to Long Beach, California, and also provides services to Okinawa, Japan and various islands in the South Pacific. In addition, subsidiaries of MatNav provide container stevedoring, refrigerated cargo services, inland transportation and other terminal services for MatNav and other ocean carriers on the Hawaiian islands of Oahu, Hawaii, Maui and Kauai, and in the Alaska locations of Anchorage, Kodiak and Dutch Harbor.

Matson has a 35 percent ownership interest in SSA Terminals, LLC (“SSAT”), a joint venture between Matson Ventures, Inc., a wholly-owned subsidiary of MatNav, and SSA Ventures, Inc. (“SSA”), a subsidiary of Carrix, Inc. (“Terminal Joint Venture”). SSAT provides terminal and stevedoring services to various carriers at seven terminal facilities on the U.S. West Coast, including four facilities which are used by MatNav. Matson records its share of income from the Terminal Joint Venture in costs and expenses in the Consolidated Statements of Income and Comprehensive Income, and within the Ocean Transportation segment due to the nature of SSAT’s operations.

Logistics: Matson’s Logistics business is conducted through Matson Logistics, Inc. (“Matson Logistics”), a wholly-owned subsidiary of MatNav. Established in 1987, Matson Logistics is an asset-light business that provides a variety of logistics services to its customers including: (i) multimodal transportation brokerage of domestic and international rail intermodal services, long-haul and regional highway trucking services, specialized hauling, flat-bed and project services, less-than-truckload services, and expedited freight services (collectively “Transportation Brokerage” services); (ii) less-than-container load (“LCL”) consolidation and freight forwarding services (collectively “Freight Forwarding” services); (iii) warehousing and distribution services; and (iv) supply chain management, non-vessel operating common carrier (“NVOCC”) freight forwarding and other services.

Our Mission and Vision:

Our mission is to move freight better than anyone. Our vision is to create value for our shareholders by:

- Being our customers’ first choice,
- Leveraging our core strengths to drive growth and increase profitability,
- Improving the communities in which we work and live,
- Being an environmental leader in our industry, and
- Being a great place to work.



Table of Contents

B. BUSINESS DESCRIPTION

(1) OCEAN TRANSPORTATION SEGMENT

Ocean Freight Services:

Matson's Ocean Transportation segment provides the following services:

Ocean Transportation Services:

**Hawaii Service:** Matson's Hawaii service provides ocean freight services (lift-on/lift-off, roll-on/roll-off and conventional services) between the ports of Long Beach and Oakland, California; Seattle, Washington; and Honolulu, Hawaii. Matson also operates a network of inter-island barges that provide connecting services from Honolulu, Hawaii to other major ports on the Hawaiian islands of Kauai, Maui and Hawaii. Matson is the largest carrier of ocean cargo between the U.S. West Coast and Hawaii.

Westbound cargo carried by Matson to Hawaii includes dry containers of mixed commodities, refrigerated commodities, packaged foods and beverages, retail merchandise, building materials, automobiles and household goods. Matson's eastbound cargo from Hawaii includes automobiles, household goods, dry containers of mixed commodities and livestock. The majority of Matson's Hawaii service revenue is derived from the westbound carriage of containerized freight and automobiles.

**Alaska Service:** Matson's Alaska service provides ocean freight services (lift-on/lift-off and conventional services) between the port of Tacoma, Washington, and the ports of Anchorage, Kodiak and Dutch Harbor in Alaska. Matson also provides a barge service between Dutch Harbor and Akutan in Alaska, and other transportation services to smaller locations in Alaska.

Northbound cargo to Alaska includes dry containers of mixed commodities, refrigerated commodities, packaged foods and beverages, retail merchandise, household goods and automobiles. Southbound cargo from Alaska primarily consists of seafood, household goods and automobiles.

China Service: Matson's expedited China-Long Beach Express ("CLX") service is part of an integrated service that carries cargo from Long Beach, California to Honolulu, Hawaii, to Guam, and then to Okinawa, Japan. The vessels continue to the ports of Ningbo and Shanghai in China, where they are loaded with cargo to be discharged primarily in Long Beach, California. These vessels also carry cargo destined for Hawaii which originated in Guam, Micronesia, Japan and China. Matson provides container transshipment services between the CLX ports and many locations in Asia including Hong Kong and Xiamen, China.

Eastbound cargo from China to Long Beach, California consists mainly of garments, footwear and other retail merchandise. Westbound cargo to China and other destinations in Asia consists mainly of recycled materials.

Guam Service: Matson's Guam service provides weekly services between the U.S West Coast and Guam, as part of its expedited CLX service. Matson also provides weekly connecting service from Guam to the Commonwealth of the Northern Mariana Islands. These services carry cargo similar to the Hawaii service described above.

Japan Service: Matson's Japan service provides services to the port of Naha in Okinawa, Japan, as part of its expedited CLX service. This service carries mainly general sustenance cargo and household goods supporting the U.S. military.

Micronesia Service: Matson's Micronesia service provides services between the U.S. West Coast and the islands of Yap, Pohnpei, Chuuk and Kosrae in the Federated States of Micronesia, and the Republic of Palau. Cargo destined for these locations is transshipped through Guam and consists of mainly general sustenance cargo. Matson also operates a direct service between Honolulu, Hawaii and the islands of Kwajalein, Ebeye and Majuro in the Republic of the Marshall Islands with a U.S. flagged vessel. This service carries mainly general sustenance cargo, construction materials, and household goods supporting the U.S. military.

Table of Contents

South Pacific Service: Matson's New Zealand Express ("NZX") service provides services carrying general sustenance cargo between Auckland, New Zealand and the South Pacific islands, including Fiji (Suva and Lautoka), Samoa (Apia), American Samoa (Pago Pago), the Cook Islands (Rarotonga and Aitutaki), Tonga (Nukualofa and Vava'u), and Niue. Matson's NZX service also provides transshipment services to the islands of Tahiti, Vanuatu, Nauru and the Solomon Islands (Honiara). Additionally, Matson also provides slotting arrangements for the transportation of cargo from major ports on the east coast of Australia to ports in the South Pacific islands. The NZX service also distributes and sells domestic bulk fuel to a variety of these islands.

Matson also provides a bi-weekly South Pacific Express ("SPX") service that connects the U.S. West Coast to ports in the South Pacific islands. Cargo destined for these ports is transshipped from the U.S. West Coast on Matson's Hawaii and CLX services to a Matson SPX vessel in Honolulu, Hawaii. The SPX vessel then transports the cargo to ports in the South Pacific islands including Tahiti (Papeete), American Samoa (Pago Pago), Samoa (Apia) and Tonga (Nukualofa). Commencing September 2018, the SPX service also provides a bi-monthly service to Christmas Island (Kiritimati) in the Republic of Kiribati. Cargo destined for other ports is transshipped to Matson's South Pacific service at the port of Apia, Samoa. SPX cargo originating in the South Pacific destined for Hawaii or other locations on the U.S. West Coast is shipped to Honolulu, Hawaii, and then transshipped on Matson vessels to the U.S. West Coast.

Terminal and Other Related Services:

Matson provides container stevedoring, refrigerated cargo services, inland transportation, container equipment maintenance and other terminal services (collectively "terminal services") for MatNav at terminals located on the Hawaiian islands of Oahu, Hawaii, Maui and Kauai; and in the Alaska terminal locations of Anchorage, Kodiak and Dutch Harbor. Matson also provides terminal services for other ocean carriers at the Alaska terminal locations of Kodiak and Dutch Harbor.

Matson's Terminal Joint Venture SSAT provides terminal and stevedoring services to various carriers at seven terminal facilities on the U.S. West Coast and to MatNav at four of those facilities, which are Long Beach and Oakland, California; and Seattle and Tacoma, Washington.

Matson utilizes the services of other third-party terminal operators at all of the other ports at which its vessels call.

Vessel Management Services:

Matson contracts with the U.S. Department of Transportation to provide vessel management services to manage and maintain three Ready Reserve Force vessels on behalf of the U.S. Department of Transportation Maritime Administration.

Recent Ocean Transportation Acquisition:

On May 29, 2015, Matson completed its acquisition of Horizon Lines, Inc. (“Horizon”). As a result, Matson acquired Horizon’s Alaska operations and assumed all of Horizon’s non-Hawaii assets and liabilities.

Matson’s Vessel and Equipment Information:

Vessels:

Matson’s fleet includes both owned and chartered vessels. Matson’s owned vessels represent an investment of approximately \$1.5 billion. The majority of Matson’s owned vessels are U.S. flagged and Jones Act qualified vessels, and operate in the Hawaii, Guam, Japan, China and Alaska services. During the fourth quarter of 2018, Matson launched MV Daniel K. Inouye, the largest Jones Act container vessel ever built in the U.S. Matson’s non-U.S. flagged vessels operate in the Micronesia and South Pacific services.

Table of Contents

Active and reserve vessels both owned and chartered by Matson as of December 31, 2018 are as follows:

Name of Vessels (1)	Owned/ Chartered	Official Number	Usable Cargo Capacity		Vehicles Autos	Year Built	Length	Maximum Speed (Knots)	Maximum Deadweight (Long Tons)
			Containers TEUs (2)	Reefer Slots					
<b>Gasel-Powered</b>									
DANIEL K.									
DUYE (3)	Owned	1274136	3,220	408	—	2018	854' 0"	23.5	50,794
LANOAH (3)	Owned	651627	2,824	408	—	1982	860' 2"	23.0	30,187
MAHIMAHIMA (3)	Owned	653424	2,824	408	—	1982	860' 2"	23.0	30,167
MANULANI (3)	Owned	1168529	2,378	284	—	2005	712' 0"	23.0	29,517
MAUNAWILI (3)	Owned	1153166	2,378	326	—	2004	711' 9"	23.0	29,517
MANUKAI (3)	Owned	1141163	2,378	326	—	2003	711' 9"	23.0	29,517
MAURICE PFEIFFER (3)	Owned	979814	2,245	300	—	1992	713' 6"	23.0	27,100
MAUIKIHANA (3)	Owned	655397	1,994	354	1,323	1983	860' 2"	23.0	29,484
MAUNALEI (3)	Chartered	1181627	1,992	328	—	2006	681' 1"	22.1	33,771
MATSON KODIAK									
	Owned	910308	1,668	280	—	1987	710' 0"	20.0	37,473
MATSON									
ANCHORAGE (3)	Owned	910306	1,668	280	—	1987	710' 0"	20.0	37,473
MATSON									
COMA (3)	Owned	910307	1,668	280	—	1987	710' 0"	20.0	37,473
MOKUIKI (4)	Owned	9232979	707	100	—	2000	433' 9"	17.5	8,509
MOHANA (5)	Chartered	9184225	645	120	—	2004	388' 7"	14.0	8,200
MOLOA II (5)	Chartered	9184237	630	90	—	2005	388' 6"	15.0	8,071
MOLOA II (5)	Chartered	9184249	630	90	—	2004	388' 6"	15.0	8,071
MOLOA MAU (5)	Owned	1559	521	68	—	1999	381' 5"	14.0	5,364
MOHANA (5)	Chartered	9164550	505	101	—	2000	330' 0"	14.5	5,550
MOHANA (5)	Owned	4958	384	60	—	1997	329' 9"	13.0	4,508
<b>Ham-Powered</b>									
MOLUAE (3)	Owned	530137	2,018	188	—	1971	787' 8"	21.0	38,656
MOLUAI (3)	Owned	621042	1,644	276	44	1980	720' 5"	22.0	26,308
MATSONIA (3)	Owned	553090	1,727	258	450	1973	760' 0"	21.0	22,501
<b>Loges</b>									
MOLUANA LOA (3)	Chartered	1247426	500	78	—	2013	362' 6"	—	12,678
MOLUAKALA									
(6)	Owned	676972	335	78	—	1984	350' 0"	—	4,658
MOLULIUK BAY									
(6)	Chartered	1249384	178	—	—	2013	250' 0"	—	4,138
MOLUALEALE (3)(7)	Owned	978516	—	36	230	1991	345' 0"	—	5,621

(1) Excludes inactive vessels.

(2)

Edgar Filing: Matson, Inc. - Form 10-K

Twenty-foot Equivalent Units (“TEU”) is a standard measure of cargo volume correlated to a standard 20-foot dry cargo container.

- (3) U.S. flagged and Jones Act qualified vessel or barge.
- (4) U.S. flagged vessel.
- (5) Foreign flagged vessel.
- (6) Lift-on/lift-off barge equipped with cranes.
- (7) Roll-on/roll-off barge.

Hawaii Fleet Renewal Program:

Matson is investing approximately \$0.9 billion in the construction of four new vessels to renew its Hawaii fleet and phase-out the use of older steamships that are near the end of their useful life. The first Aloha Class containership, MV Daniel K. Inouye, was delivered on October 31, 2018 and commenced active service in November 2018. Expected delivery dates and specifications of the remaining three vessels currently under construction are as follows:

Name of Vessels	Expected Delivery Date	Type of Vessel	Official Number	Usable Cargo Capacity			Length	Maximum Speed (Knots)	Maximum Deadweight (Long Tons)
				Containers	Reefer	Vehicles			
Dual-fuel Capable				TEUs	Slots	Autos			
Kaimana Hila (1)	Q1 2019	Containership	1274135	3,220	408	—	854’ 0”	23.5	53,747
Lurline (2)	Q4 2019	Con-Ro	1274143	2,750	432	500	869’ 5”	23.0	50,981
Matsonia (2)	Q3 2020	Con-Ro	1274123	2,750	432	500	869’ 5”	23.0	50,981

Table of Contents

- (1) The Aloha Class container vessel is being constructed by Philly Shipyard, Inc. (“Philly Shipyard”), with a dual-fuel, liquefied natural gas capable engine.
- (2) The two new Kanaloa Class combination container and roll-on/roll-off (“Con-Ro”) vessels are being constructed by General Dynamics NASSCO (“NASSCO”), with dual-fuel, liquefied natural gas capable engines.

The new vessels are expected to have among the lowest operating cost per TEU capacity of any vessel in the U.S. domestic trades. The cost efficiencies are expected to be driven by increased vessel utilization and by significantly lower fuel consumption, maintenance and repair, and dry-docking costs. Matson also expects to return to an optimal nine vessel Hawaii fleet deployment once MV Lurline is in service. In addition, the new vessels will provide increased capacity over the older vessels that are being replaced.

Actual paid and expected remaining vessel construction obligations based on signed agreements and change orders, excluding owners’ items and capitalized interest, are as follows:

Vessel Construction Obligations (in millions)	Paid 2018 and Prior	Outstanding Obligations		Total
		2019	2020	
Two Aloha Class Container Vessels	\$ 386.9	\$ 20.7	\$ 3.9	\$ 411.5
Two Kanaloa Class Con-Ro Vessels	290.7	168.2	57.8	516.7
Total	\$ 677.6	\$ 188.9	\$ 61.7	\$ 928.2

## Hawaii Terminal Expansion and Modernization Program:

Matson is in the process of renovating its terminal facility at Sand Island, Honolulu, Hawaii. The first phase involves the investment of approximately \$60 million and includes the installation of three new 65 long-ton capacity gantry cranes and modifications to upgrade three existing cranes. The first phase also includes upgrades in electrical infrastructure and other modifications to the Sand Island terminal. The first phase is expected to be completed during 2020.

Additional phases will be completed in the 2021 to 2024 timeframe and will be part of a broader terminal expansion and modernization program that Matson is undertaking at its Sand Island terminal.

## Equipment:

Edgar Filing: Matson, Inc. - Form 10-K

As a complement to its fleet of vessels, Matson has a variety of equipment including cranes, containers and chassis which represents an investment of approximately \$0.5 billion as of December 31, 2018. Matson also leases containers, chassis and other equipment under various operating lease agreements.

Additional information about Matson's fleet equipment is as follows:

Fleet Equipment	Total (1)	Approx. % Owned (1)	Approx. % Leased (1)
Chassis	22,200	51 %	49 %
Dry Containers	36,500	60 %	40 %
Refrigerated Containers	8,100	43 %	57 %
Specialty Equipment (2)	5,700	82 %	18 %
Motor Generators	2,000	90 %	10 %

(1) Amounts represent approximations of equipment totals and percentage allocations.

(2) Specialty equipment includes auto frames, flat racks, insulated containers, open top containers, platforms, flat bed trailers and tanks.

Operating Costs:

Major components of Ocean Transportation operating costs are as follows:

Direct Cargo Expense includes terminal handling costs, purchased outside transportation and other related costs.

Vessel Operating Expense includes crew wages and related costs; fuel consumption, pilot, tugs and line related costs; vessel charter expenses; and other vessel related expenses. Matson purchases fuel oil, lubricants and gasoline for its operations and also pays fuel surcharges to other third party transportation providers.



Table of Contents

Operating Overhead includes equipment repair costs, equipment operating lease and repositioning expenses, vessel repair and maintenance costs, dry-docking amortization, insurance, port engineers and other maintenance costs, and other vessel and shoreside related overhead.

Matson's U.S. flagged vessels must meet specified seaworthiness standards established by U.S. Coast Guard rules and classification society requirements. These standards require vessels to undergo two dry-docking inspections within a five-year period. The majority of Matson's U.S. flagged vessels used in the Hawaii service are enrolled in the U.S. Coast Guard's Underwater Survey in Lieu of Dry-docking ("UWILD") program. The UWILD program allows eligible vessels to meet their intermediate dry-docking requirement with a less costly underwater inspection.

Matson is responsible for ensuring that its non-U.S. flagged owned and bareboat chartered vessels meet international standards for seaworthiness, which among other requirements generally mandate that Matson perform two dry-docking inspections every five years. The dry-dockings of Matson's time chartered vessels are the responsibility of the vessel owners.

Competition:

The following is a summary of major competitors in Matson's Ocean Transportation segment:

Hawaii Service: Matson's Hawaii service has one major U.S. flag Jones Act ocean carrier competitor, Pasha Hawaii ("Pasha"), which operates container and roll-on/roll-off services between the ports of Long Beach, Oakland and San Diego, California to Hawaii. There also are two U.S. flag Jones Act barge operators, Aloha Marine Lines and Sause Brothers, which offer barge service between the Pacific Northwest and Hawaii.

Foreign-flag vessels carrying cargo to Hawaii from non-U.S. locations also provide alternatives for companies shipping to Hawaii. Other competitors in the Hawaii service include proprietary operators and contract carriers of bulk cargo. Air freight competition for time-sensitive and perishable cargo exists; however, inroads by such competition in terms of cargo volume are limited by the amount of cargo space available in passenger aircrafts and by the cost of air freight transportation.

Matson vessels are operated on schedules that provide customers, shippers and consignees fixed day-of-the-week sailings from the U.S. West Coast as well as fixed day-of-the-week arrivals in Hawaii. Matson offers four westbound sailings per week, though this amount may be adjusted according to seasonal demand and market conditions. One of Matson's westbound sailings each week continues on to Guam, Japan and China, so the number of eastbound sailings direct from Hawaii to the U.S. Mainland is three per week. This service is attractive to customers because more

frequent sailings permit customers to reduce inventory carrying costs. Matson also competes by offering a more comprehensive service to customers, including: service to and from the three largest U.S. West Coast ports; the most efficient terminal network on the U.S. West Coast provided by Matson's Terminal Joint Venture partner SSAT; a dedicated inter-island barge network; an award winning customer service team; and its efficiency and experience in handling cargo of all types.

Alaska Service: Matson's Alaska service has one major U.S. flag Jones Act competitor, Totem Ocean Trailer Express, Inc., which operates a roll-on/roll off service between Tacoma, Washington and Anchorage, Alaska. There are also two U.S. flag Jones Act barge operators, Alaska Marine Lines, which mainly provides services from Seattle, Washington to the main ports of Anchorage and Dutch Harbor, and other locations in Alaska, and Samson Tug & Barge, which mainly serves Western Alaska and other locations. The barge operators have historically shipped lower value commodities that can accommodate a longer transit time, as well as construction materials and other cargo that are not conducive to movement in containers. Foreign-flag vessels provide alternatives for companies shipping cargo (mainly seafood) from the Alaska ports of Kodiak and Dutch Harbor.

Matson offers customers twice weekly scheduled services from Tacoma, Washington to Anchorage and Kodiak, Alaska and weekly service to Dutch Harbor, Alaska. The Company also provides a weekly barge service between Dutch Harbor and Akutan in Alaska. Matson is the only Jones Act containership operator providing service to Kodiak and Dutch Harbor in Alaska, which are the primary loading ports for southbound seafood. Matson offers dedicated terminal services at the Alaska ports of Anchorage, Kodiak and Dutch Harbor performed by MatNav, and at the port of Tacoma, Washington performed by Matson's Terminal Joint Venture partner SSAT.

Table of Contents

China Service: Major competitors to Matson's China service include large international carriers such as Maersk, MSC, CMA CGM and its subsidiary APL, Evergreen, China COSCO, ONE (including "K" Line, NYK Line and MOL), OOCL, Hyundai and SM Line.

Matson competes by offering a fast and reliable service from the ports of Ningbo and Shanghai in China to Long Beach, California, providing fixed day arrivals and next-day cargo availability. Matson's service is further differentiated by offering a dedicated marine terminal in Long Beach, California provided by Matson's Terminal Joint Venture partner SSAT, an off-dock container yard providing fast truck turn times, and one-stop intermodal connections, and providing state-of-the-art technology and world-class customer service. Matson has offices in Hong Kong, Shenzhen, Xiamen, Ningbo and Shanghai, and has contracted with terminal operators in Ningbo and Shanghai.

Guam Service: Matson's Guam service has one major competitor, APL, which operates a weekly U.S. flagged container feeder service connecting the U.S. West Coast to Guam and Saipan, via transshipments over Yokohama, Japan and Busan, South Korea. Waterman operates a roll-on/roll-off service which periodically calls at Guam. There are also several foreign carriers that call at Guam from foreign origin ports.

Japan Service: Matson's Japan service competes primarily with APL, which operates a weekly U.S. flagged containership service from the U.S. West Coast to the Port of Naha, Okinawa, Japan.

Micronesia and the South Pacific Services: Matson's Micronesia and South Pacific services have competition from a variety of local and international carriers that provide freight services to the area.

Customer Concentration:

Matson serves customers in numerous industries and carries a wide variety of cargo, mitigating its dependence upon any single customer or single type of cargo. In 2018, 2017 and 2016, the Company's 10 largest Ocean Transportation customers accounted for approximately 24 percent, 23 percent and 24 percent of the Company's Ocean Transportation revenue, respectively. None of these customers individually account for more than 10 percent of Matson's Ocean Transportation operating revenues. For additional information on Ocean Transportation revenues for the years ended December 31, 2018, 2017 and 2016, see Note 2 to the Consolidated Financial Statements in Item 8 of Part II below.

Seasonality:

Matson's Ocean Transportation services typically experience seasonality in volume, generally following a pattern of increasing volumes starting in the second quarter of each year, culminating in a peak season throughout the third quarter, with subsequent decline in demand during the fourth and first quarters. This seasonality trend is amplified in the Alaska service primarily due to winter weather and the timing of southbound seafood trade. As a result, earnings tend to follow a similar pattern, offset by periodic vessel dry-docking and other episodic cost factors, which can lead to earnings variability. In addition, in the China trade, volume is driven primarily by U.S. consumer demand for goods during key retail selling seasons while freight rates are impacted mainly by macro supply and demand variables.

Maritime Laws and the Jones Act:

Maritime Laws: All interstate and intrastate marine commerce within the U.S. falls under the Merchant Marine Act of 1920 (commonly referred to as the Jones Act).

The Jones Act is a long-standing cornerstone of U.S. maritime policy. Under the Jones Act, all vessels transporting cargo between covered U.S. ports must, subject to limited exceptions, be built in the U.S., registered under the U.S. flag, be manned predominantly by U.S. crews, and owned and operated by U.S.-organized companies that are controlled and 75 percent owned by U.S. citizens. U.S. flagged vessels are generally required to be maintained at higher standards than foreign flagged vessels and are subject to rigorous supervision and inspections by, or on behalf of, the U.S. Coast Guard, which requires appropriate certifications and background checks of the crew members. Under Section 27 of the Jones Act, the carriage of cargo between the U.S. West Coast, Hawaii and Alaska on foreign-built or foreign-documented vessels is prohibited.

Table of Contents

During the years ended December 31, 2018 and 2017, approximately 72 percent of Matson's Ocean Transportation revenues came from the Hawaii and Alaska trades that were subject to the Jones Act. Matson's Hawaii and Alaska trade routes are included within the non-contiguous Jones Act market. Hawaii, as an island economy, and Alaska due to its geographical location, are both dependent on ocean transportation. The Jones Act ensures frequent, reliable, roundtrip service to these locations. Matson's vessels operating in these trade routes are Jones Act qualified.

Matson is a member of the American Maritime Partnership ("AMP") which supports the retention of the Jones Act and similar cabotage laws. The Jones Act has broad support from both houses of Congress. Matson believes that the ongoing war on terrorism has further solidified political support for U.S. flagged vessels because a vital and dedicated U.S. merchant marine is a cornerstone for a strong homeland defense, as well as a critical source of trained U.S. mariners for wartime support. AMP seeks to inform elected officials and the public about the economic, national security, commercial, safety and environmental benefits of the Jones Act and similar cabotage laws. Repeal of the Jones Act would allow foreign-flag vessel operators that do not have to abide by all U.S. laws and regulations to sail between U.S. ports in direct competition with Matson and other U.S. domestic operators that must comply with all such laws and regulations.

Other U.S. maritime laws require vessels operating between Guam, a U.S. territory, and U.S. ports to be U.S. flagged and predominantly U.S. crewed, but not U.S. built.

Cabotage laws are not unique to the United States, and similar laws exist around the world in over 90 countries, including regions in which Matson provides ocean transportation services. Any changes in such laws may have an impact on the services provided by Matson in those regions.

Regulations:

**Rate Regulations and Fuel Surcharge:** Matson is subject to the jurisdiction of the Surface Transportation Board with respect to its domestic ocean rates. A rate in the non-contiguous domestic trade is presumed reasonable and will not be subject to investigation if the aggregate of increases and decreases is not more than 7.5 percent above, or more than 10 percent below, the rate in effect one year before the effective date of the proposed rate, subject to increase or decrease by the percentage change in the U.S. Producer Price Index. Matson generally provides a 30-day notice to customers of any increases in general rates and terminal handling charges, and passes along decreases as soon as possible.

Matson applies a fuel surcharge rate to its Ocean Transportation customers. Changes in the fuel surcharge levels are correlated to prevailing market rates for bunker fuel prices along with other factors related to fuel expense recovery.

Other Regulations: Matson's Ocean Transportation services engaged in U.S. foreign commerce are subject to the jurisdiction of the Federal Maritime Commission ("FMC"). The FMC is an independent regulatory agency that is responsible for the regulation of ocean-borne international transportation of the U.S.

Environmental Regulations:

Being a leader in environmental stewardship and contributing positively to the communities in which we live and work are core values at Matson. Matson's vessels transit through some of the most environmentally sensitive areas in the United States including the Hawaiian islands and the coasts of California, Oregon, Washington and Alaska. Matson is focused in particular on reducing transportation emissions, including carbon dioxide, nitrous oxide, particulate matter and sulfur dioxide, through improvements in vessel fuel consumption and truck efficiency, and the development of more fuel-efficient transportation solutions. Matson further contributes positively to the environment by testing and deploying cutting edge technologies which are applied to our modernized fleet.

Vessel Emissions Regulations: The International Maritime Organization ("IMO") is a specialized agency of the United Nations responsible for regulating shipping. Effective January 1, 2020, the IMO has imposed a worldwide regulation that requires all vessels to burn compliant fuel oil with a maximum sulfur content of 0.5 percent. With respect to North America, the U.S. Environmental Protection Agency ("EPA") received approval from the IMO, in coordination with Environment Canada, to designate all waters, with certain limited exceptions, within 200 nautical miles of U.S. and Canadian coast lines as designated emission control areas ("ECAs"). Beginning January 1, 2015, EPA regulations reduced the maximum sulfur emissions permitted in designated ECAs from 1.0 percent to 0.1 percent.

Table of Contents

Matson's three diesel-powered vessels in its Alaska service operate a substantial portion of their voyages in ECAs. Matson successfully installed exhaust gas cleaning systems (commonly referred to as "scrubbers") on these vessels to be in compliance with the IMO and EPA ECA regulations.

Matson's Hawaii and CLX vessels operate a portion of their voyages in ECAs. Matson's four new Hawaii vessels can burn low sulfur fuels enabling the vessels to be compliant with the new IMO and EPA ECA regulations. Following the delivery of MV Lurline in the fourth quarter of 2019, Matson expects to phase out the use of all three remaining steamships by the end of 2019. In addition, Matson has announced plans to install scrubbers on three additional diesel-powered vessels used in the Hawaii and CLX services to be completed during 2019 and early 2020. Matson continues to develop solutions and apply other operating strategies to comply with emissions regulations on its other vessels in use in the Hawaii and CLX services, and other services.

Other Environmental Regulations: Matson's operations are required to comply with other environmental regulations and requirements including the Oil Pollution Act of 1990, the Comprehensive Environmental Response Compensation & Liability Act of 1980, the Rivers and Harbors Act of 1899, the Clean Water Act, the Invasive Species Act and the Clean Air Act. The Company actively monitors its operations to ensure compliance with these and other regulations.

For more information on Matson's environmental stewardship initiatives, including its environmental goals, see [https://www.matson.com/corporate/about\\_us/environmental.html](https://www.matson.com/corporate/about_us/environmental.html). The contents of our website are not incorporated by reference into this Form 10-K.

(2) LOGISTICS SEGMENT

Logistics Services:

Matson's Logistics segment provides the following services:

Transportation Brokerage Services: Matson Logistics' transportation brokerage services provide intermodal rail, highway, and other third-party logistics services for North American customers and international ocean carrier customers, including MatNav. Matson Logistics is able to reduce transportation costs for its customers through volume purchases of rail, motor carrier and ocean transportation services, augmented by services such as shipment tracking and tracing, and single-vendor invoicing. Matson Logistics operates customer service centers and has sales offices throughout North America.

**Freight Forwarding Services:** Matson Logistics provides LCL consolidation and freight forwarding services primarily to the Alaska market through its wholly owned subsidiary, Span Alaska. Span Alaska's business aggregates LCL freight at its main cross-dock facility in Auburn, Washington for consolidation and shipment to a network of cross-dock facilities in Alaska. Span Alaska also provides trucking services to its Auburn cross-dock facility and from its Alaska based cross-dock facilities to final customer destinations in Alaska.

**Warehousing and Distribution Services:** Matson Logistics operates two warehouses in Georgia and two warehouses in Northern California providing warehousing, value-added packaging and distribution services.

**Supply Chain Management and Other Services:** Matson Logistics' supply chain management provides customers with a variety of logistics services including purchase order management, customs brokerage, LCL and full container load NVOCC freight forwarding services.

**Investment in Anchorage Cross-dock Facility:** Span Alaska is in the process of constructing a new 54,000 square foot cross-dock facility to consolidate its Anchorage operations that currently operate from two smaller leased facilities. The new cross-dock facility is expected to be completed by the end of 2019 and is expected to improve Span Alaska's operating efficiency while providing additional capacity for long-term growth.

**Recent Logistics Acquisition:** On August 4, 2016, Matson Logistics completed its acquisition of Span Alaska. For additional information about this acquisition, see Note 18 to the Consolidated Financial Statements in Item 8 of Part II below.



Table of Contents

Operating Costs:

Matson Logistics' operating costs primarily consist of the costs of purchased transportation, leases of warehouses and other facility operating costs, salaries and benefits, and other operating overhead.

Competition:

Matson Logistics competes with hundreds of local, regional, national and international companies that provide transportation and third-party logistics services. The industry is highly fragmented and, therefore, competition varies by geography and areas of service.

Matson Logistics' transportation brokerage services competes most directly with C.H. Robinson Worldwide, the Hub Group, and other freight brokers and intermodal marketing companies, and asset-invested market leaders such as J.B. Hunt. Competition is differentiated by the depth, scale and scope of customer relationships; vendor relationships and rates; network capacity; real-time visibility into the movement of customers' goods; and other technology solutions. Additionally, while Matson Logistics primarily provides surface transportation brokerage, it also competes to a lesser degree with other forms of transportation for the movement of cargo.

Matson Logistics' freight forwarding services compete most directly with a variety of freight forwarding companies that operate within Alaska including Carlile, Lynden, American Fast Freight and Alaska Traffic Company.

Customer Concentration:

Matson Logistics serves customers in numerous industries and geographical locations. In 2018, 2017 and 2016, the Company's 10 largest logistics customers accounted for approximately 23 percent, 19 percent and 22 percent of Matson Logistics' revenue, respectively. None of these customers individually account for more than 10 percent of Matson Logistics' operating revenues. For additional information on Logistics revenues for the years ended December 31, 2018, 2017 and 2016, see Note 2 to the Consolidated Financial Statements in Item 8 of Part II below.

Seasonality:

Matson's Logistics services are generally not significantly impacted by seasonality factors, except for its freight forwarding service to Alaska which is affected by the winter weather, the cyclical nature of the oil and construction industries, and the seasonal nature of the tourism industry.

## C. EMPLOYEES AND LABOR RELATIONS

### Employees:

As of December 31, 2018, Matson and its subsidiaries had 2,007 employees, of which 786 employees were covered by collective bargaining agreements with shoreside and offshore unions. These numbers do not include billets on vessels discussed below, employees of SSAT, or other non-employees, such as agents, temporary workers and contractors.

Matson's active fleet employed seagoing personnel in 339 billets at December 31, 2018. Each billet corresponds to a position on a vessel that typically is filled by two or more employees because seagoing personnel rotate between active sea-duty and time ashore. These amounts exclude billets related to two reserve vessels as of December 31, 2018 and Matson's foreign flagged chartered vessels where the vessel owner is responsible for its seagoing personnel. Matson's vessel management services also employed personnel in 28 billets at December 31, 2018.

### Bargaining Agreements:

Matson and SSAT are members of the Pacific Maritime Association ("PMA"), which on behalf of its members negotiates collective bargaining agreements with the International Longshore and Warehouse Union ("ILWU") on the U.S. Pacific Coast. The PMA/ILWU collective bargaining agreements cover substantially all U.S. West Coast longshore

Table of Contents

labor. In August 2017, the ILWU agreed to extend its contract with the PMA to July 1, 2022. Matson also has collective bargaining agreements with other unions that expire at various dates in the future.

Matson's seagoing employees are represented by unions for both unlicensed and licensed crew members. Matson also has collective bargaining agreements with these unions that expire at various dates in the future.

Certain collective bargaining agreements expire during 2019. While Matson believes that it will be able to renegotiate these collective bargaining agreements with its various unions as they expire without any significant impact on its operations, no assurance can be given that such agreements will be reached without slow-downs, strikes, lock-out or other disruptions that may adversely impact Matson's operations.

Multi-employer Pension and Post-retirement Plans:

Matson contributes to a number of multi-employer pension and post-retirement plans. Matson has no present intention of withdrawing from, and does not anticipate the termination of any of the multi-employer pension plans that it contributes to (see Notes 11 and 12 to the Consolidated Financial Statements in Item 8 of Part II below for a discussion of withdrawal liabilities under certain multi-employer pension plans).

D. AVAILABLE INFORMATION

Matson makes available, free of charge on or through its Internet website, Matson's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the U.S. Securities and Exchange Commission ("SEC"). The address of Matson's Internet website is [www.matson.com](http://www.matson.com). The contents of our website are not incorporated by reference into this Form 10-K.

The SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding Matson and other issuers that file electronically with the SEC. The address of the SEC's Internet website is [www.sec.gov](http://www.sec.gov).

ITEM 1A. RISK FACTORS

The Company's business faces the risks set forth below, which may adversely affect our business, financial condition and operating results. All forward-looking statements made by the Company or on the Company's behalf are qualified by the risks described below.

#### Risks Relating To Operations

Changes in U.S., global, regional economic conditions or governmental policies that result in a decrease in consumer confidence or market demand for the Company's services and products in Hawaii and Alaska, the U.S. Mainland, Guam, Asia or the South Pacific may adversely affect the Company's financial position, results of operations, liquidity, or cash flows.

A weakening of domestic or global economies may adversely impact the level of freight volumes and freight rates. Within the U.S., a weakening of economic drivers in Hawaii and Alaska, which include tourism, military spending, construction starts, personal income growth and employment, or the weakening of consumer confidence, market demand, the economy in the U.S. Mainland, or the effect of a change in the strength of the U.S. dollar against other foreign currencies, may further reduce the demand for goods to and from Asia, Hawaii and Alaska, adversely affecting inland and ocean transportation volumes or rates. In addition, overcapacity in the global or transpacific ocean transportation markets, a change in the cost of goods or currency exchange rates, imposition of tariffs, or a change in international trade policies may adversely affect freight volumes and rates in the Company's China service.

The Company may face new or increased competition.

The Company may face new competition by established or start-up shipping operators that enter the Company's markets. The entry of a new competitor or the addition of new vessels or capacity by existing competition on any of the

Table of Contents

Company's routes could result in a significant increase in available shipping capacity that could have an adverse effect on volumes and rates. For example, in December 2016, the Company's major competitor in the Guam service upgraded its U.S. flagged feeder containership from a bi weekly service to a weekly service connecting the U.S. West Coast to Guam and Saipan via transshipments over Yokohama, Japan and Busan, South Korea. As a result of this and other potential competitor actions, the Company could experience a reduction in profitability.

The loss of or damage to key agent or customer relationships may adversely affect the Company's business.

The Company's businesses are dependent on their relationships with agents and customers, and derive a significant portion of their revenues from the Company's largest customers. The Company could be adversely affected by any changes in the services provided, or changes to the costs of services provided by agents. Relationships with railroads and shipping companies and agents are important in the Company's intermodal business as well as in the Guam, Micronesia, Japan and South Pacific services.

The Company's business also relies on its relationships with the military, freight forwarders, large retailers and consumer goods and automobile manufacturers, as well as other larger customers. In 2018, the Company's Ocean Transportation segment's 10 largest customers accounted for approximately 24 percent of the business' revenue. In 2018, the Company's Logistics segment's 10 largest customers accounted for approximately 23 percent of the business' revenue. The loss of or damage to any of these key relationships may adversely affect the Company's business and revenue.

The Company is dependent upon key vendors and third-parties for equipment, capacity and services essential to operate its business, and if the Company fails to secure sufficient third-party services, its business could be adversely affected.

The Company's businesses are dependent upon key vendors who provide rail, truck and ocean transportation services. If the Company cannot secure sufficient transportation equipment, capacity or services from these third-parties at reasonable prices or rates to meet its or its customers' needs and schedules, customers may seek to have their transportation and logistics needs met by others on a temporary or permanent basis. If this were to occur, the Company's business, consolidated results of operations and financial condition could be adversely affected.

An increase in fuel prices, changes in the Company's ability to collect fuel surcharges, and/or the cost or limited availability of required fuels on the U.S. West Coast may adversely affect the Company's profits.

Fuel is a significant operating expense for the Company's Ocean Transportation business. The price and supply of fuel are unpredictable and fluctuate based on events beyond the Company's control. Increases in the price of fuel may adversely affect the Company's results of operations. Increases in fuel costs also can lead to increases in other expenses such as energy costs and costs to purchase outside transportation services. In the Company's Ocean Transportation and Logistics services segments, the Company utilizes fuel related surcharges, although increases in the fuel surcharge may adversely affect the Company's competitive position and may not correspond exactly with the timing of increases in fuel expense. Changes in the Company's ability to collect fuel surcharges also may adversely affect its results of operations.

Effective January 1, 2020, the IMO has imposed a world-wide regulation that all ships must burn compliant fuel oil with a maximum sulfur content of  $\leq 0.5$  percent. While 0.1 percent low-sulfur distillate fuel is currently available, supplies of low-sulfur residual fuel may be limited. Distillate and residual compliant fuels are more costly compared to scrubber technology and prolonged use on some Matson vessels could degrade engine performance or lead to higher maintenance costs. Matson successfully operates scrubbers in the Alaska service and has announced plans to install scrubbers on three additional vessels that operate in the CLX service. Scrubbers allow vessels to continue to burn high sulfur fuel oil and comply with IMO 2020 regulations. Matson's new Aloha and Kanaloa class vessel engines can burn fuel compliant with IMO 2020 regulations, including liquefied natural gas ("LNG") although they are not currently outfitted for LNG. The LNG infrastructure is lacking in major U.S. West Coast ports and it is unclear when this infrastructure may be constructed and operational. The Company's ability to recover the higher costs of IMO 2020 compliant fuel through fuel surcharges, the availability of compliant low-sulfur residual fuel, and the potential impact on vessel performance and maintenance costs may adversely affect the Company's operations, business and profit.

Table of Contents

Work stoppages or other labor disruptions caused by unionized workers of the Company, other workers or their unions in related industries may adversely affect the Company's operations.

As of December 31, 2018, Matson and its subsidiaries had 2,007 regular employees, of which 786 employees were covered by collective bargaining agreements with unions. In addition, at December 31, 2018, the active Matson fleet employed seagoing personnel in 339 billets, and vessel management services employed personnel in 28 billets. Such employees are also subject to collective bargaining agreements. Furthermore, the Company relies on the services of third-parties including SSAT that employ persons covered by collective bargaining agreements. For additional information on collective bargaining agreements with unions, see Item 1. C. Employees and Labor Relations of Part I above.

The Company could be adversely affected by actions taken by employees of the Company or other companies in related industries against efforts by management to control labor costs, restrain wage or benefit increases or modify work practices. Strikes and disruptions may occur as a result of the failure of Matson or other companies in its industry to negotiate collective bargaining agreements with such unions successfully.

In addition, any slow-downs, strikes, lock-outs or other disruptions, including limits to availability of labor through trade union hiring halts could have an adverse impact on Matson's or SSAT's operations.

The Company is susceptible to weather, natural disasters and other operating risks.

The Company's operations are vulnerable to disruption as a result of weather and natural disasters, such as bad weather at sea, hurricanes, typhoons, tsunamis, floods and earthquakes. Such events will interfere with the Company's ability to provide on-time scheduled service, resulting in increased expenses and potential loss of business associated with such events. In addition, severe weather and natural disasters can result in interference with the Company's terminal operations, and may cause serious damage to its vessels and cranes, loss or damage to containers, cargo and other equipment, and loss of life or physical injury to its employees, all of which could have an adverse effect on the Company's business.

The Company's vessels and their cargoes are also subject to operating risks such as mechanical failure, collisions and human error. The occurrence of any of these events may result in damage to or loss of vessels or other property, or injury or death of people. If any of these events were to occur, the Company could be exposed to reputational harm and liability for resulting damages and possible penalties that, pursuant to typical maritime industry policies, it must pay and then seek reimbursement from its insurer. Affected vessels may also be removed from service and thus would be unavailable for income-generating activity.

The Company maintains casualty and liability insurance policies, which are generally subject to large retentions and deductibles. Some types of losses, such as losses resulting from a port blockage, generally, are not insured. In some cases the Company retains the entire risk of loss because it is not economically prudent to purchase insurance coverage or because of the perceived remoteness of the risk. Other risks are uninsured because insurance coverage may not be commercially available. Finally, the Company retains all risk of loss that exceeds the limits of its insurance.

The Company's significant operating agreements and leases could be replaced on less favorable terms or may not be replaced.

The significant operating agreements and leases of the Company in its various businesses expire at various points in the future and may not be replaced or could be replaced on less favorable terms, thereby adversely affecting the Company's future financial position, results of operations and cash flows. For example, on November 26, 2018, a wholly-owned subsidiary of the Company entered into agreements whereby MV Maunalei, a U.S. flagged and Jones Act qualified vessel, was sold for \$106.0 million and leased back from the buyer under an operating lease agreement. While the agreements contain customary representations, warranties and covenants, there remain risks that the lessor could lose its Jones Act status, that the Company could not replace MV Maunalei in the event it is no longer Jones Act eligible, or if elected, that the Company would not be able to repurchase MV Maunalei at the end of the lease term.



Table of Contents

The Company may face unexpected dry-docking or repair costs for its vessels.

We routinely engage shipyards to dry-dock our vessels for regulatory compliance and to provide repair and maintenance. Vessels may also have to be dry-docked or repaired at sea in the event of accidents or other unforeseen damage. The cost of repairs are difficult to predict with certainty and can be substantial. Large dry-docking and other repair expenses could adversely affect the Company's results of operations and cash flows. In addition, the time when a vessel is out of service for maintenance is determined by a number of factors, including regulatory deadlines, market conditions, shipyard availability and customer requirements, and accordingly, the length of time that a vessel may be out of service may be longer than anticipated, which could adversely affect the Company's business, financial condition, results of operations and cash flows.

If we are not able to use our information technology and communications systems effectively, our ability to conduct business might be negatively impacted.

The Company is highly dependent on the proper functioning of our information technology systems to enable operations and compete effectively. Our information technology systems rely on third-party service providers for access to the Internet, satellite-based communications systems, the electric grid, database storage facilities and telecommunications providers. We have no control over the operations of these third-party service providers. If our information technology and communications systems experience reliability issues, integration or compatibility concerns or if our third-party providers are unable to perform effectively or experience disruptions or failures, there could be an adverse impact on the availability and functioning of our information technology and communications systems, which could lead to business disruption or inefficiencies, reputational harm or loss of customers that could have an adverse effect on our business.

Our information technology systems may be exposed to cybersecurity risks and other disruptions that could impair the Company's ability to operate and adversely affect its business.

The Company relies extensively on its information technology systems and third-party service providers including cloud services for accounting, billing, disbursement, cargo booking and tracking, vessel scheduling and stowage, equipment tracking, customer service, banking, payroll and employee communication systems. The Company also collects, stores and transmits sensitive data, including its proprietary business information and that of its customers, and personally identifiable information of its customers and employees. Despite our continuous efforts to make investments in our information technology systems and system-wide data security program, the implementation of security measures to protect our data and infrastructure against breaches and other cyber threats, and our use of internal processes and controls designed to protect the security and availability of our systems, our information technology and communication systems may be vulnerable to cybersecurity risks such as computer viruses, hacking, malware, denial of service attacks, cyber terrorism, circumvention of security systems, malfeasance, breaches due to employee error, natural disasters, telecommunications failure, or other catastrophic events at the Company's facilities, aboard its vessels or at third-party locations.

Any failure, breach or unauthorized access to the Company's or third-party systems could result in the loss of confidential, sensitive or proprietary information, interruptions in its service or production or otherwise impact our ability to conduct business operations, and could result in potential reductions in revenue and profits, damage to its reputation or liability.

Loss of the Company's key personnel could adversely affect its business.

The Company's future success will depend, in significant part, upon the continued services of its key personnel, including its senior management and skilled employees. The loss of the services of key personnel could adversely affect the Company's future operating results because of such employees' experience and knowledge of the Company's business and customer relationships. If key employees depart, the Company may incur significant costs to replace them. Additionally, the Company's ability to execute its business model could be impaired if it cannot replace them in a timely manner. The Company does not maintain key person insurance on any of its key personnel.

Table of Contents

The Company is involved in a joint venture and is subject to risks associated with joint venture relationships.

The Company is involved in a terminal joint venture, SSAT (and through SSAT, other joint ventures at U.S. West Coast terminals), and may initiate future joint venture projects. A joint venture involves certain risks such as:

- The Company may not have voting control over the joint venture;
- The Company may not be able to maintain good relationships with its joint venture partner;
- A joint venture partner at any time may have economic or business interests that are inconsistent with the Company's;
- A joint venture partner may fail to fund its share of capital for operations or to fulfill its other commitments, including providing accurate and timely accounting and financial information to the Company;
- The joint venture may experience operating difficulties and financial losses, which may lead to asset write-downs or impairment charges that could negatively impact the operating results of the joint venture and the Company;
- The joint venture or venture partner could lose key personnel;
- A joint venture partner could become bankrupt requiring the Company to assume all risks and capital requirements related to the joint venture project, and the related bankruptcy proceedings could have an adverse impact on the operation of the partnership or joint venture; and
- Actions of the joint venture may result in reputational harm to the Company.

In addition, the Company relies on the terminal joint venture, SSAT, and SSA for its stevedoring services at the ports of Long Beach and Oakland, California, and Seattle and Tacoma, Washington on the U.S. West Coast. The Company could be adversely affected by any changes in the services provided, or to the costs of such services provided by the Company's terminal joint venture, SSAT, and SSA.

The Company is subject to risks associated with conducting business in foreign shipping markets.

Matson's China, Micronesia, Japan and South Pacific services are subject to risks associated with conducting business in a foreign shipping market, which include:

- Challenges associated with operating in foreign countries and doing business and developing relationships with foreign companies;
- Challenges in working with and maintaining good relationships with business associates in our foreign operations;
- Difficulties in staffing and managing foreign operations;
- Our ability to be in compliance with U.S. and foreign legal and regulatory restrictions, including compliance with the Foreign Corrupt Practices Act and foreign laws that prohibit corrupt payments to government officials;
- Global vessel overcapacity that may lead to decreases in volumes and shipping rates;
- Not having continued access to existing port facilities;
- Competition with established and new carriers;

- Changes in vessel deployment by competitors that impact the Company's services;
- Currency exchange rate fluctuations and our ability to manage these fluctuations;
- Political and economic instability;
- Dynamics involving U.S. trade relations with other countries, including measures such as the imposition of tariffs or other governmental actions, all of which may affect the Company's operations; and
- Challenges caused by cultural differences.

Any of these risks has the potential to adversely affect the Company's operating results.

The Company is subject to risks related to a marine accident or spill event.

The Company's vessel and terminal operations could be faced with a maritime accident, oil or other spill, or other environmental mishap. Such event may lead to personal injury, loss of life, damage of property, pollution and suspension of operations. As a result, such event could have an adverse effect on the Company's business.

Table of Contents

The Company's Shipbuilding Agreements with Philly Shipyard and NASSCO are subject to risks.

On November 6, 2013, MatNav and Philly Shipyard entered into definitive agreements pursuant to which Philly Shipyard will construct two new 3,600-TEU sized Aloha Class dual-fuel capable containerships. The first vessel, MV Daniel K. Inouye, was delivered on October 31, 2018. It is expected that the second vessel will be delivered in the first quarter of 2019. On August 25, 2016, MatNav and NASSCO entered into a definitive agreement pursuant to which NASSCO will construct two new 3,500-TEU sized Kanaloa Class dual-fuel capable container and roll-on/roll-off vessels, with expected delivery dates at the end of 2019 and 2020. Failure of any party to the shipbuilding agreements to fulfill its obligations under the agreements could have an adverse effect on the Company's financial position and results of operations. Such a failure could happen for a variety of reasons, including but not limited to (i) delivery delays, (ii) delivery of vessels that fail to meet any of the required operating specifications (for example, capacity, fuel efficiency or speed), (iii) events in Korea which prevent one or more significant subcontractors to each of, Philly Shipyard or NASSCO from performing, or (iv) the insolvency of, or the refusal or inability to perform for any reason, by Philly Shipyard, NASSCO, or any of their respective subcontractors. Significant delays in the delivery of the new vessels could limit our ability to replace aging steamships without substantial modifications, which could also have an adverse impact on our business plans, financial condition and results of operations.

The Company's terminals in Hawaii and Alaska require modernization.

We are investing approximately \$60 million, including the installation of three new gantry cranes and upgrade of three existing cranes, as part of the first phase of a broader project to expand and improve the Company's Sand Island terminal in Honolulu Harbor. We have also begun discussions with state and local authorities in Anchorage, Alaska regarding upgrades to those terminal and port facilities. Regulatory, construction or other delays or cost overruns related to the expansion and modernization of the terminals could have an adverse impact on our business plans, financial condition and results of operations.

Heightened security measures, war, actual or threatened terrorist attacks, efforts to combat terrorism and other acts of violence may adversely impact the Company's operations and profitability.

War, terrorist attacks and other acts of violence may cause consumer confidence and spending to decrease, or may affect the ability or willingness of tourists to travel to Hawaii, Guam or Alaska, thereby adversely affecting those economies and the Company. Additionally, future terrorist attacks could increase volatility in the U.S. and worldwide financial markets. Acts of war or terrorism may be directed at the Company's shipping operations, or may cause the U.S. government to take control of Matson's vessels for military operation. Heightened security measures potentially slow the movement and increase the cost of freight through U.S. or foreign ports, across borders or on U.S. or foreign railroads or highways and could adversely affect the Company's business and results of operations.

Acquisitions may have an adverse effect on the Company's business.

The Company's growth strategy includes expansion through acquisitions, including, for example, the Company's acquisitions of Horizon in 2015 and Span Alaska in 2016. Acquisitions may result in difficulties in assimilating acquired assets or companies, and may result in the diversion of the Company's capital and its management attention from other business issues and opportunities. The Company may not be able to integrate companies that it acquires successfully, including their personnel, financial systems, distribution, operations and general operating procedures. The Company may also encounter challenges in achieving appropriate internal control over financial reporting in connection with the integration of an acquired company. The Company may pay a premium for an acquisition, resulting in goodwill that may later be determined to be impaired, adversely affecting the Company's financial condition and results of operations.

The Horizon and Span Alaska acquisitions may expose us to unknown liabilities.

We acquired Horizon subject to all of the liabilities and obligations of its non-Hawaii business, including any remaining liabilities and obligations associated with its Puerto Rico operations, which Horizon ceased during the first quarter of 2015. Similarly, in August 2016, we acquired Span Alaska subject to all of its liabilities and obligations. The disposition of these liabilities, and any other obligations that are unknown to the Company, including contingent liabilities, could have an adverse effect on the Company's financial condition and results of operations.

Table of Contents

We may continue to be exposed to risks and liabilities related to Horizon's former Hawaii business.

Pasha acquired Horizon's former Hawaii business immediately before we acquired Horizon, and Pasha assumed substantially all liabilities and obligations related to Horizon's Hawaii business and agreed to perform various covenants. In some cases however, Horizon, as the original contracting party, may remain primarily responsible for such assumed Hawaii liabilities and obligations. The Company may incur losses related to such assumed Hawaii liabilities and obligations.

We may be required to record a significant charge to earnings if recorded intangible assets associated with the Horizon and Span Alaska acquisitions became impaired.

We recorded significant intangible assets related to goodwill and customer relationships arising from the Horizon and Span Alaska acquisitions. We are required to test goodwill for impairment annually, or whenever events or changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Factors that could lead to an impairment of goodwill or intangible customer relationships include any significant adverse changes affecting the reporting unit's financial condition, results of operations, and future cash flows.

Risks Relating to Financial Matters

A deterioration of the Company's credit profile, disruptions of the credit markets or higher interest rates could restrict its ability to access the debt capital markets or increase the cost of debt.

Deterioration in the Company's credit profile may have an adverse effect on the Company's ability to access the private or public debt markets and also may increase its borrowing costs. If the Company's credit profile deteriorates significantly, its access to the debt capital markets or its ability to renew its committed lines of credit may become restricted, or the Company may not be able to refinance debt at the same levels or on the same terms. Because the Company relies on its ability to draw on its revolving credit facilities to support its operations, when required, any volatility in the credit and financial markets that prevents the Company from accessing funds (for example, a lender that does not fulfill its lending obligation) could have an adverse effect on the Company's financial condition and cash flows. Additionally, the Company's credit agreements generally include an increase in borrowing rates if the Company's credit profile deteriorates. Furthermore, the Company incurs interest under its revolving credit facilities based on floating rates. Floating rate debt creates higher debt service requirements if market interest rates increase, as was the case in connection with the U.S. Federal Reserve's interest rate increases in 2018, which would adversely affect the Company's cash flow and results of operations.

Failure to comply with certain restrictive financial covenants contained in the Company's credit facilities could preclude the payment of dividends, impose restrictions on the Company's business segments, capital resources or other activities or otherwise adversely affect the Company.

The Company's credit facilities contain certain restrictive financial covenants, the most restrictive of which include a maximum ratio of debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"), a minimum ratio of EBITDA to interest expense, the maintenance of no more than a maximum amount of priority debt as a percentage of consolidated tangible assets, and the maintenance of minimum shareholders' equity. If the Company does not maintain these and other required covenants, and a breach of such covenants is not cured timely or waived by the lenders resulting in a default, the Company's access to credit may be limited or terminated, dividends may be suspended, and the lenders could declare any outstanding amounts due and payable. The Company's continued ability to borrow under its credit facilities is subject to compliance with these financial and other non-financial covenants.

The Company's effective income tax rate may vary.

Various internal and external factors may have favorable or unfavorable, material or immaterial effects on the Company's effective income tax rate and, therefore, impact the Company's net income and earnings per share. These factors include, but are not limited to changes in tax rates; changes in tax laws, regulations, and rulings; changes in interpretations of existing tax laws, regulations and rulings; changes in the evaluation of the Company's ability to realize deferred tax assets, and changes in uncertain tax positions; changes in accounting principles; changes in current pre-tax



Table of Contents

income as well as changes in forecasted pre-tax income; changes in the level of CCF deductions, non-deductible expenses, and expenses eligible for tax credits; changes in the mix of earnings among countries with varying tax rates; and acquisitions and changes in the Company's corporate structure. These factors may result in periodic revisions to our effective income tax rate, which could affect the Company's cash flow and results of operations.

Changes in the value of pension assets, or a change in pension law or key assumptions, may adversely affect the Company's financial performance.

The amount of the Company's employee pension and post-retirement benefit costs and obligations are calculated on assumptions used in the relevant actuarial calculations. Adverse changes in any of these assumptions due to economic or other factors, changes in discount rates, higher health care costs, or lower actual or expected returns on plan assets, may adversely affect the Company's operating results, cash flows, and financial condition. In addition, a change in federal law, including changes to the Employee Retirement Income Security Act or Pension Benefit Guaranty Corporation premiums, may adversely affect the Company's single-employer and multi-employer pension plans and plan funding. These factors, as well as a decline in the fair value of pension plan assets, may put upward pressure on the cost of providing pension and medical benefits and may increase future pension expense and required funding contributions. There can be no assurance that the Company will be successful in limiting future cost and expense increases, and continued upward pressure in costs and expenses could further reduce the profitability of the Company's businesses.

The Company may have exposure under its multi-employer pension and post-retirement plans in which it participates that extends beyond its funding obligation with respect to the Company's employees.

The Company contributes to various multi-employer pension plans. In the event of a partial or complete withdrawal by the Company from any plan that is underfunded, the Company would be liable for a proportionate share of such plan's unfunded vested benefits (see Note 11 to the Consolidated Financial Statements in Item 8 of Part II below). Based on the limited information available from plan administrators, which the Company cannot independently validate, the Company believes that its portion of the contingent liability in the case of a full withdrawal or termination may be material to its financial position and results of operations. If any other contributing employer withdraws from any plan that is underfunded, and such employer (or any member of its controlled group) cannot satisfy its obligations under the plan at the time of withdrawal, then the Company, along with the other remaining contributing employers, would be liable for its proportionate share of such plan's unfunded vested benefits. In addition, if a multi-employer plan fails to satisfy the minimum funding requirements, the Internal Revenue Service will impose certain penalties and taxes.

Risks Relating to Legal and Legislative Matters

Compliance with safety and environmental protection and other governmental requirements may adversely affect our operations.

The shipping industry in general, our business and the operation of our vessels and terminals in particular are affected by extensive and changing safety, environmental protection and other international, national, State and local governmental laws and regulations, including the following: laws pertaining to air emissions; wastewater discharges; the transportation, handling and disposal of solid and hazardous materials, oil and oil-related products, hazardous substances and wastes; the investigation and remediation of contamination; and health, safety and the protection of the environment and natural resources. For example, our U.S. flagged vessels generally must be maintained “in class” and are subject to periodic inspections by the American Bureau of Shipping or similar classification societies, and must be periodically inspected by, or on behalf of, the United States Coast Guard. Federal environmental laws and certain State laws require us, as a vessel operator, to comply with numerous environmental regulations and to obtain certificates of financial responsibility and to adopt procedures for oil and hazardous substance spill prevention, response and clean up.

In complying with these laws, we have incurred expenses and may incur future expenses for vessel modifications, changes in operating procedures and undergoing additional oversight inspections. Changes in enforcement policies for existing requirements and additional laws and regulations adopted in the future could limit our ability to do business or further increase the cost of our doing business. Our vessels’ operating certificates and licenses are renewed periodically during the required annual surveys of the vessels. However, there can be no assurance that such certificates and licenses will be renewed, even though Matson maintains extensive programs and policies to ensure such renewal. Also, in the future, we may have to alter existing equipment, add new equipment, or change operating procedures for our vessels to

Table of Contents

comply with changes in governmental regulations, safety or other equipment standards to meet our customers' changing needs. If any such costs are material, they could adversely affect our financial condition.

We are subject to regulation and liability under environmental laws that could result in substantial fines and penalties that may have a material adverse effect on our results of operations.

The U.S. Act to Prevent Pollution from vessels, which implements the International Maritime Pollution (MARPOL) treaty, and the Oil Pollution Act of 1990, among many other laws, treaties and regulations, provides for severe civil and criminal penalties related to vessel-generated pollution for incidents in U.S. waters within three nautical miles and in some cases within the 200-mile exclusive economic zone. The EPA requires vessels to obtain coverage under a general permit and to comply with inspection, monitoring, discharge, recordkeeping and reporting requirements. Matson's vessels operate within sulfur emission control areas (SECAs) or emission control areas (ECAs). If our vessels are not operated in accordance with these requirements, including waivers, permits or record keeping and other reporting requirements, such violations could result in substantial fines or penalties that could have a material adverse effect on our results of operations and our business.

The Company is subject to, and may in the future be subject to disputes, legal or other proceedings, and government inquiries or investigations that could have an adverse effect on the Company.

The nature of the Company's business exposes it to the potential for disputes, legal or other proceedings, and government inquiries or investigations relating to antitrust matters, labor and employment matters, personal injury and property damage, environmental and other matters, as discussed in the other risk factors disclosed in this section or in other Company filings with the SEC. For example, Matson is a common carrier, whose tariffs, rates, rules and practices in dealing with its customers are governed by extensive and complex foreign, federal, state and local regulations, which may be the subject of disputes or administrative or judicial proceedings. If these disputes develop into proceedings, these proceedings, individually or collectively, could involve or result in significant expenditures or losses by the Company, or result in significant changes to Matson's tariffs, rates, rules and practices in dealing with its customers, all of which could have an adverse effect on the Company's future operating results, including profitability, cash flows and financial condition.

Repeal, substantial amendment, or waiver of the Jones Act or its application would have an adverse effect on the Company's business.

If the Jones Act was to be repealed, substantially amended, or waived and, as a consequence, competitors were to enter the Hawaii or Alaska markets with lower operating costs by utilizing their ability to acquire and operate foreign-flag and foreign-built vessels, the Company's business would be adversely affected. In addition, the Company's advantage as a U.S. citizen operator of Jones Act vessels could be eroded by periodic efforts and attempts

by foreign interests to circumvent certain aspects of the Jones Act. If maritime cabotage services were included in the General Agreement on Trade in Services, the North American Free Trade Agreement, the United States-Mexico-Canada Agreement, the U.S. EU Trade Agreement or other international trade agreements, or if the restrictions contained in the Jones Act were otherwise altered, the shipping of cargo between covered U.S. ports could be opened to foreign-flag or foreign-built vessels.

Non-compliance with, or changes to, federal, state or local law or regulations, including passage of climate change legislation or regulation, may adversely affect the Company's business.

The Company is subject to federal, state and local laws and regulations, including cabotage laws, government rate regulations, and environmental regulations including those relating to air quality initiatives at port locations, including but not limited to, the Oil Pollution Act of 1990, the Comprehensive Environmental Response Compensation & Liability Act of 1980, the Rivers and Harbors Act of 1899, the Clean Water Act, the Invasive Species Act and the Clean Air Act. Continued compliance with these laws and regulations may result in additional costs and changes in operating procedures that may adversely affect the Company's business. Non-compliance with, or changes to, the laws and regulations governing the Company's business could impose significant additional costs on the Company and adversely affect the Company's financial condition and results of operations. In addition, changes in environmental laws impacting the business, including passage of climate change legislation or other regulatory initiatives that restrict emissions of greenhouse gasses such as a "cap and trade" system of allowances and credits, if enacted, may require costly vessel modifications, the use of higher-priced fuel and changes in operating practices that may not be recoverable

Table of Contents

through increased payments from customers. Further changes to these laws and regulations could adversely affect the Company.

Risks Related to Capital Structure

The Company's business could be adversely affected if the Company were determined not to be a U.S. citizen under the Jones Act.

Certain provisions of the Company's articles of incorporation protect the Company's ability to maintain its status as a U.S. citizen under the Jones Act. Although the Company is a U.S. citizen under the Jones Act, if non-U.S. citizens were able to defeat such articles of incorporation restrictions and own in the aggregate more than 25 percent of the Company's common stock, the Company would no longer be considered as a U.S. citizen under the Jones Act. Such an event could result in the Company's ineligibility to engage in coastwise trade and the imposition of substantial penalties against it, including seizure or forfeiture of its vessels, which could have an adverse effect on the Company's financial condition and results of operation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Matson leases terminal facilities including office and storage space at the following locations:

Ocean Transportation Services	Terminal Location	Description of Facility	Acreage
Hawaii	Honolulu, Hawaii	Terminal facility	105
	West Oahu, Hawaii	Terminal storage	7
Alaska	Anchorage, Alaska	Terminal facility	38
	Kodiak, Alaska	Terminal facility	6
	Dutch Harbor, Alaska	Terminal facility	18

Guam

Polaris Point, Guam

Terminal storage

30

The Company is currently renewing certain terminal leases which expire during 2019. The Company expects to be able to renew these leases as they expire on similar terms to those that currently exist within these lease agreements. The Company's other primary terminal facilities located at the ports of Oakland and Long Beach, California, and the ports of Seattle and Tacoma, Washington are leased by the Company's Terminal Joint Venture, SSAT.

20

---

Table of Contents

The Company's other significant facilities are as follows:

Other Significant Facilities	Description of Facility	Square Footage
U.S. Office Locations:		
Honolulu, Hawaii	Corporate headquarters	16,444
Oakland, California	Office	48,162
Phoenix, Arizona	Office	27,986
Oakbrook Terrace, Illinois	Office	17,004
Concord, California	Office	7,974
Asan, Guam	Office	5,000
Renton, Washington	Office	3,770
Atlanta, Georgia	Office	3,685
Akron, Ohio	Office	3,500
Cerritos, California	Office	1,628
Hilo, Hawaii	Office	1,205
Foreign Office Locations:		
Shanghai, China	Office	7,240
Auckland, New Zealand	Office	3,832
Ningbo, China	Office	2,103
Hong Kong, China	Office	1,535
Xiamen, China	Office	1,399
Shenzhen, China	Office	1,065
Warehouses, Cross-dock and Storage Facilities:		
Pooler, Georgia	Warehouse	710,844
Oakland, California	Warehouse	400,000
Pooler, Georgia	Warehouse	324,832
Oakland, California	Warehouse	132,000
Tacoma, Washington	Warehouse	80,000
Piti, Guam	Warehouse	62,478
Auburn, Washington	Cross-dock	51,250
Anchorage, Alaska	Cross-dock	23,680
Anchorage, Alaska	Cross-dock	13,954
Fairbanks, Alaska	Cross-dock	6,000
Soldotna, Alaska	Cross-dock	5,400
Kodiak, Alaska	Cross-dock	4,000
Auburn, Washington	Cross-dock	2,500
Wasilla, Alaska	Cross-dock	2,000
Alameda, California	Storage	53,785

## ITEM 3. LEGAL PROCEEDINGS

Environmental Matters: The Company's Ocean Transportation segment has certain risks that could result in expenditures for environmental remediation. The Company believes that based on all information available to it, the Company is currently in compliance, in all material respects, with applicable environmental laws and regulations.

Other Matters: The Company and its subsidiaries are parties to, or may be contingently liable in connection with other legal actions arising in the normal course of their businesses, the outcomes of which, in the opinion of management after consultation with counsel, would not have a material effect on the Company's financial condition, results of operations, or cash flows.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.



Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General Information: Matson's common stock is traded on the New York Stock Exchange under the ticker symbol "MATX". As of February 20, 2019, there were 2,236 shareholders of record of Matson common stock.

Stockholder Return Performance Graph and Trading Information: The following information in this Item 5 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933.

The cumulative total return listed below assumed an initial investment of \$100 and reinvestment of dividends at each fiscal end and measures the performance of this investment as of the last trading day in the month of December for each of the five years ended December 31, 2018. The graph is a historical representation of past performance only and is not necessarily indicative of future performance.

---

\*\$100 invested on December 31, 2013 in stock or index, including reinvestment of dividends.

Trading volume averaged 232,289 shares a day in 2018, compared with 241,338 shares a day in 2017 and 279,852 shares a day in 2016, as reported by the New York Stock Exchange.

Table of Contents

Dividends: Dividends declared per share of common stock by the Company for each fiscal quarter during 2017 and 2018, were as follows:

	Dividends Declared
2017	
First Quarter	\$ 0.19
Second Quarter	\$ 0.19
Third Quarter	\$ 0.20
Fourth Quarter	\$ 0.20
2018	
First Quarter	\$ 0.20
Second Quarter	\$ 0.20
Third Quarter	\$ 0.21
Fourth Quarter	\$ 0.21

Matson's Board of Directors also declared a cash dividend of \$0.21 per share for the first quarter 2019, payable on March 7, 2019 to shareholders of record on February 7, 2019. Although Matson expects to continue paying quarterly cash dividends on its common stock, the declaration and payment of dividends are subject to the discretion of the Board of Directors and will depend upon Matson's financial condition, results of operations, cash requirements and other factors deemed relevant by the Board of Directors.

Share Repurchases: On November 4, 2015, the Company announced that Matson's Board of Directors had approved a share repurchase program of up to 3.0 million shares of common stock through November 2, 2018. Shares could be repurchased in the open market from time to time, and may be made pursuant to a trading plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. During the fourth quarter ended December 31, 2018, no shares were repurchased, excluding shares withheld for employee taxes upon vesting of share-based awards. The maximum number of remaining shares that could have been purchased under the share repurchase program was 1,151,288 as of November 2, 2018, when the program expired.

Equity Compensation Plan Information: The following table sets forth, as of December 31, 2018, certain information regarding Matson's equity compensation plan:

	Number of shares to be issued	Weighted-average exercise price of	Number of shares remaining available for future issuance under
--	--	---------------------------------------	--

Edgar Filing: Matson, Inc. - Form 10-K

Plan Category	upon exercise of outstanding options, warrants and rights (a)	(1)	outstanding options, warrants and rights (b)	(2)	equity compensation plans (excluding shares reflected in column (a)) (c)	(3)
Equity compensation plans approved by shareholders	954,365		\$ 21.81		1,617,553	
Equity compensation plans not approved by shareholders	—		\$ —		—	
Total	954,365		\$ 21.81		1,617,553	

- 
- (1) In addition to 195,776 shares subject to outstanding stock option awards, includes 427,828 shares subject to unvested restricted stock unit awards and 330,761 shares subject to unvested Performance Share awards.
- (2) As restricted stock unit and Performance Share awards do not have exercise prices, the weighted average exercise price is computed using only outstanding stock option awards.
- (3) These shares are available for issuance under the Company's 2016 Incentive Compensation Plan.

Table of Contents

## ITEM 6. SELECTED FINANCIAL DATA

The comparative selected financial data of the Company is presented for each of the five years in the period ended December 31, 2018. The information should be read in conjunction with Item 8, “Financial Statements and Supplementary Data,” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. All fiscal years include 52 weeks, except for the year ended December 31, 2016 which includes 53 weeks:

(In millions, except shareholders of record and per-share amounts)	2018	2017	2016	2015	2014
Operating Revenue: (1)					
Ocean Transportation	\$ 1,641.3	\$ 1,571.8	\$ 1,541.1	\$ 1,498.0	\$ 1,278.4
Logistics	581.5	475.1	400.5	386.9	435.8
Total Operating Revenue	\$ 2,222.8	\$ 2,046.9	\$ 1,941.6	\$ 1,884.9	\$ 1,714.2
Operating and Net Income: (1)					
Ocean Transportation (2)(3)	\$ 131.1	\$ 126.4	\$ 144.5	\$ 192.3	\$ 130.9
Logistics (3)	32.7	20.9	12.2	8.8	8.7
Total Operating Income (3)	163.8	147.3	156.7	201.1	139.6
Interest expense	(18.7)	(24.2)	(24.1)	(18.5)	(17.3)
Other income (expense), net (3)	2.6	2.1	(2.1)	(4.8)	0.4
Income before Income Taxes	147.7	125.2	130.5	177.8	122.7
Income taxes (4)(5)	(38.7)	105.8	(49.1)	(74.8)	(51.9)
Net Income (5)	\$ 109.0	\$ 231.0	\$ 81.4	\$ 103.0	\$ 70.8
Identifiable Assets: (1)					
Ocean Transportation (5)(6)	\$ 2,071.6	\$ 1,941.5	\$ 1,726.3	\$ 1,605.1	\$ 1,313.9
Logistics	358.8	310.1	293.3	68.8	87.9
Total Assets (5)	\$ 2,430.4	\$ 2,251.6	\$ 2,019.6	\$ 1,673.9	\$ 1,401.8
Capital Expenditure (7):					
Ocean Transportation	\$ 385.4	\$ 305.3	\$ 179.1	\$ 67.5	\$ 27.8
Logistics	15.8	1.7	0.3	0.3	0.1
Total Capital Expenditures	\$ 401.2	\$ 307.0	\$ 179.4	\$ 67.8	\$ 27.9
Depreciation and Amortization:					
Ocean Transportation	\$ 87.0	\$ 93.3	\$ 92.6	\$ 81.4	\$ 66.6
Logistics	7.4	7.9	4.5	2.0	3.1
	94.4	101.2	97.1	83.4	69.7
Deferred Dry-docking Amortization —					
Ocean Transportation	37.4	46.2	38.9	23.1	21.1
Total Depreciation and Amortization	\$ 131.8	\$ 147.4	\$ 136.0	\$ 106.5	\$ 90.8
Earnings Per Share in Net Income:					

Edgar Filing: Matson, Inc. - Form 10-K

Basic (5)	\$ 2.55	\$ 5.38	\$ 1.89	\$ 2.37	\$ 1.65
Diluted (5)	2.53	5.35	1.87	2.34	1.63
Cash dividends per share declared	\$ 0.82	\$ 0.78	\$ 0.74	\$ 0.70	\$ 0.66
As of December 31:					
Total debt obligations — including current portion	\$ 856.4	\$ 857.1	\$ 738.9	\$ 429.9	\$ 373.6
Total Shareholders' equity (5)	\$ 755.3	\$ 677.2	\$ 494.9	\$ 450.6	\$ 363.8
Shares outstanding	42.7	42.5	42.9	43.5	43.2

- 
- (1) 2015 and subsequent selected financial data includes the operations of Horizon acquired as of May 29, 2015, and Span Alaska acquired as of August 4, 2016.
  - (2) The Ocean Transportation segment includes \$36.8 million, \$28.2 million, \$15.8 million, \$16.5 million and \$6.6 million of equity in income from the Company's Terminal Joint Venture, SSAT, for 2018, 2017, 2016, 2015 and 2014, respectively.
  - (3) Amounts for the years ended December 31, 2017, 2016, 2015 and 2014 have been adjusted to reflect the adoption of ASU 2017-07 as described in Note 2 to the Consolidated Financial Statements in Item 8 of Part II below.
  - (4) Income taxes for the years ended December 31, 2018 and 2017 includes a non-cash income tax (expense)/benefit of \$(2.9) million and \$154.0 million, respectively, related to the remeasurement of the Company's deferred assets and liabilities and other discrete adjustments as a result of applying the Tax Cut and Jobs Act of 2017.
  - (5) Amounts for the years ended December 31, 2017, 2016 and 2015 have been adjusted for an immaterial correction of an error as described in Note 2 to the Consolidated Financial Statements in Item 8 of Part II below.
  - (6) The Ocean Transportation segment includes \$87.0 million, \$93.2 million, \$82.4 million, \$66.4 million, and \$64.4 million related to the Company's Terminal Joint Venture investment as of December 31, 2018, 2017, 2016, 2015, and 2014, respectively.
  - (7) Excludes expenditures related to Matson's acquisition of Horizon and Span Alaska which are classified as payments for acquisitions in Cash Flows used in Investing Activities within the Consolidated Statements of Cash Flows.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

The Company, from time to time, may make or may have made certain forward-looking statements, whether orally or in writing, such as forecasts and projections of the Company's future performance or statements of management's plans and objectives. These statements are "forward-looking" statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be contained in, among other things, SEC filings such as Forms 10-K, 10-Q and 8-K, the Annual Report to Shareholders, press releases made by the Company, the Company's Internet websites (including websites of its subsidiaries), and oral statements made by the officers of the Company. Except for historical information contained in these written or oral communications, such communications contain forward-looking statements. These include, for example, all references to 2019 or future years. New risk factors emerge from time to time and it is not possible for the Company to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including but not limited to the factors that are described in Part I, Item 1A under the caption of "Risk Factors" of this Form 10-K, which section is incorporated herein by reference. The Company is not required, and undertakes no obligation, to revise or update forward-looking statements or any factors that may affect actual results, whether as a result of new information, future events, or circumstances occurring after the date of this report.

OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a discussion of the Company's financial condition, results of operations, liquidity and certain other factors that may affect its future results from the perspective of management. The discussion that follows is intended to provide information that will assist in understanding the changes in the Company's Consolidated Financial Statements from year to year, the primary factors that accounted for those changes, and how certain accounting principles, policies and estimates affect the Company's Consolidated Financial Statements. MD&A is provided as a supplement to, and should be read in conjunction with the Consolidated Financial Statements and the accompanying notes to the Consolidated Financial Statements in Item 8 of Part II below. MD&A is presented in the following sections:

- Business Outlook
- Consolidated Results of Operations

Edgar Filing: Matson, Inc. - Form 10-K

- Analysis of Operating Revenue and Income by Segment
- Liquidity and Capital Resources
- Contractual Obligations, Commitments, Contingencies and Off-Balance Sheet Arrangements
- Critical Accounting Estimates
- Other Matters

25

---

Table of Contents

BUSINESS OUTLOOK

The following is the Company's fourth quarter 2018 discussion and 2019 outlook:

**Ocean Transportation:** The Company's container volume in the Hawaii service in the fourth quarter 2018 was flat year-over-year despite modest growth in the Hawaii economy supported primarily by healthy tourism activity and low unemployment. The Company expects volume in 2019 to approximate the level achieved in 2018, reflecting modest economic growth in Hawaii and stable market share.

In China, the Company's container volume in the fourth quarter 2018 was 3.8 percent higher year-over-year as the Company experienced elevated demand for its service late in the quarter during a period that is traditionally not as strong. The Company continued to realize a sizeable rate premium in the fourth quarter 2018 and achieved average freight rates higher than the fourth quarter 2017. For 2019, the Company expects a lower contribution from its China tradelane following an exceptionally strong performance in 2018 with lower average freight rates and modestly lower volume than the levels achieved in 2018.

In Guam, the Company's container volume in the fourth quarter 2018 was 10.6 percent higher year-over-year primarily due to typhoon relief volume. For 2019, the Company expects modestly lower volume as the highly competitive environment remains.

In Alaska, the Company's container volume for the fourth quarter 2018 was 4.2 percent higher year-over-year due to higher northbound volume. For 2019, the Company expects volume to be modestly higher than the level achieved in 2018 with higher northbound volume supported by improving economic conditions in Alaska and higher southbound volume due to stronger seafood harvest levels than in 2018.

The contribution in the fourth quarter 2018 from the Company's SSAT terminal joint venture investment was \$0.9 million lower than the fourth quarter 2017 due primarily to higher operating costs, partially offset by higher revenue resulting from higher lift volume. For 2019, the Company expects the contribution from SSAT to be lower as a result of lower lift volume coming off an exceptionally strong lift volume level in 2018.

As a result of the business outlook noted above, the Company expects full year 2019 Ocean Transportation operating income to approximate the \$131.1 million achieved in 2018 after taking into account a full year net operating expense impact of \$7.2 million associated with the sale and leaseback of MV Maunalei, as further described below. In the first quarter 2019, the Company expects Ocean Transportation operating income will be approximately \$10 million, which is lower than the level achieved in the first quarter 2018 primarily due to the unfavorable comparisons from the



absence of positive one-time items at SSAT in the year ago period and Alaska northbound volume associated with the dry-docking of a competitor's vessel in the first quarter last year, as well as the effect of the aforementioned vessel sale and leaseback.

Logistics: In the fourth quarter 2018, operating income for the Company's Logistics segment was \$4.4 million higher than in the fourth quarter 2017 due to improved performance across all of the service lines. The Company expects Logistics' operating income for the full year 2019 to approximate the level achieved in 2018 of \$32.7 million. In the first quarter 2019, the Company expects operating income to be moderately higher than the level achieved in the first quarter 2018.

Depreciation and Amortization: For the full year 2019, the Company expects depreciation and amortization expense to be approximately \$130 million, inclusive of dry-docking amortization of approximately \$31 million.

EBITDA: While the Company expects net income in 2019 to decline year-over-year, we expect EBITDA in 2019 to be approximately \$286 million, which is approximately the level achieved in 2018 after taking into account the full year impact in 2018 of the \$12.0 million of lease expense related to the sale and leaseback of MV Maunalei. As previously disclosed on November 27, 2018, a subsidiary of Matson entered into an agreement whereby MV Maunalei was sold for approximately \$106.0 million, and subsequently leased back from the buyer under an operating lease agreement. As a result of this transaction, the Company expects on an annual basis \$12.0 million in lease expense and \$4.8 million in lower depreciation and amortization expense (including dry-docking amortization), resulting in \$7.2 million in lower operating income.

Table of Contents

**Other Income (Expense):** The Company expects full year 2019 other income (expense) to be approximately \$2.7 million in income, which is attributable to other component costs related to the Company's pension and post-retirement plans.

**Interest Expense:** The Company expects interest expense for the full year 2019 to be approximately \$24 million.

**Income Taxes:** In the fourth quarter 2018, the Company's effective tax rate was 23.4 percent. For the full year 2019, the Company expects its effective tax rate to be approximately 26.0 percent, which excludes a positive non-cash adjustment of \$2.9 million expected in the first quarter of 2019 related to the reversal of a Tax Act expense adjustment in 2018.

**Capital and Vessel Dry-docking Expenditures:** For the full year 2018, the Company made other capital expenditure payments of \$62.6 million, capitalized vessel construction expenditures of \$338.6 million, and dry-docking payments of \$19.2 million. For the full year 2019, the Company expects to make other capital expenditure payments, including maintenance capital expenditures, of approximately \$120 million, vessel construction expenditures (including capitalized interest and owner's items) of approximately \$225 million, and dry-docking payments of approximately \$12 million. The level of other capital expenditures, including maintenance capital expenditures, for 2019 is higher than our targeted annual maintenance level of approximately \$50 million due to the installation of three new cranes, refurbishment of three existing cranes, and the infrastructure upgrade at the Sand Island terminal; the scrubber installation on three vessels in the China service; and the construction of a new cross-dock facility in Anchorage for Span Alaska.

## CONSOLIDATED RESULTS OF OPERATIONS

The following analysis of the financial condition and results of operations of Matson should be read in conjunction with the Consolidated Financial Statements in Item 8 of Part II below (Income taxes, net income and earnings per-share amounts for the year ended December 31, 2017 have been adjusted for an immaterial correction of an error as described in Note 2 to the Consolidated Financial Statements in Item 8 of Part II below).

Consolidated Results: 2018 compared with 2017:

(Dollars in millions, except per-share amounts)	Years Ended December 31,		Change	8.6	%
	2018	2017			
Operating revenue	\$ 2,222.8	\$ 2,046.9	\$ 175.9		

Edgar Filing: Matson, Inc. - Form 10-K

Operating costs and expenses	(2,059.0)	(1,899.6)	(159.4)	8.4	%
Operating income	163.8	147.3	16.5	11.2	%
Interest expense	(18.7)	(24.2)	5.5	(22.7)	%
Other income (expense), net	2.6	2.1	0.5	23.8	%
Income before income taxes	147.7	125.2	22.5	18.0	%
Income taxes	(38.7)	105.8	(144.5)	(136.6)	%
Net income	\$ 109.0	\$ 231.0	\$ (122.0)	(52.8)	%
Basic earnings per-share	\$ 2.55	\$ 5.38	\$ (2.83)	(52.6)	%
Diluted earnings per-share	\$ 2.53	\$ 5.35	\$ (2.82)	(52.7)	%

Fiscal Year: Fiscal years ended December 31, 2018 and 2017 include 52 weeks.

Consolidated Operating Revenue for the year ended December 31, 2018 increased \$175.9 million, or 8.6 percent, compared to the prior year. The increase was due to an increase of \$69.5 million and \$106.4 million in revenues for Ocean Transportation and Logistics, respectively.

Operating Costs and Expenses for the year ended December 31, 2018 increased \$159.4 million, or 8.4 percent, compared to the prior year. The increase was due to an increase of \$64.8 million and \$94.6 million in operating costs and expenses for Ocean Transportation and Logistics, respectively.

Operating Income for the year ended December 31, 2018 increased \$16.5 million, or 11.2 percent, compared to the prior year. The increase was due to an increase of \$4.7 million and \$11.8 million in operating income for Ocean Transportation and Logistics, respectively.

Table of Contents

The reasons for changes in operating revenue, operating costs and expenses, and operating income are described below, by business segment, in the Analysis of Operating Revenue and Income by Segment.

Interest Expense was \$18.7 million for the year ended December 31, 2018 compared to \$24.2 million for the year ended December 31, 2017. The reduction in interest expense was due to higher capitalized interest related to the construction of new vessels.

Other Income (Expense), net was \$2.6 million for the year ended December 31, 2018, compared to \$2.1 million for the year ended December 31, 2017, and relates to the amortization of certain components of net periodic benefit costs or gains related to the Company's pension and post-retirement plans.

Income Taxes during the year ended December 31, 2018 was an expense of \$38.7 million, or 26.2 percent of income before income taxes, as compared to a non-cash income tax benefit of \$105.8 million, or 84.5 percent of income before income taxes in the prior year. The non-cash income tax benefit for the year ended December 31, 2017 included the benefit of \$154.0 million related to the remeasurement of the Company's deferred assets and liabilities, and other discrete tax adjustments resulting from applying the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). Excluding the impact of the Tax Act, adjusted income tax expense would have been \$48.2 million, or 38.5 percent of income before income taxes, for the year ended December 31, 2017. The 2018 income tax rate is lower than the adjusted 2017 income tax rate primarily due to a reduction in federal tax rate from 35 percent in 2017 to 21 percent in 2018, offset by \$2.9 million, or 2.0 percent of non-cash expense related to discrete tax adjustments resulting from applying the Tax Act in 2018.

Net Income during the year ended December 31, 2018 decreased \$122.0 million, or 52.8 percent, compared to the prior year.

## Consolidated Results: 2017 compared with 2016:

(Dollars in millions, except per-share amounts)	Years Ended December 31,		Change		
	2017	2016			
Operating revenue	\$ 2,046.9	\$ 1,941.6	\$ 105.3	5.4	%
Operating costs and expenses	(1,899.6)	(1,784.9)	(114.7)	6.4	%
Operating income	147.3	156.7	(9.4)	(6.0)	%
Interest expense	(24.2)	(24.1)	(0.1)	0.4	%
Other income (expense), net	2.1	(2.1)	4.2	(200.0)	%
Income before income taxes	125.2	130.5	(5.3)	(4.1)	%
Income taxes	105.8	(49.1)	154.9	(315.5)	%
Net income	\$ 231.0	\$ 81.4	\$ 149.6	183.8	%
Basic earnings per-share	\$ 5.38	\$ 1.89	\$ 3.49	184.7	%

Edgar Filing: Matson, Inc. - Form 10-K

Diluted earnings per-share	\$ 5.35	\$ 1.87	\$ 3.48	186.1	%
----------------------------	---------	---------	---------	-------	---

Fiscal Year: Fiscal year ended December 31, 2017 and 2016 include 52 weeks and 53 weeks, respectively.

Consolidated Operating Revenue for the year ended December 31, 2017 increased \$105.3 million, or 5.4 percent, compared to the prior year due to increases of \$30.7 million and \$74.6 million in Ocean Transportation and Logistics revenues, respectively.

Operating Costs and Expenses for the year ended December 31, 2017 increased \$114.7 million, or 6.4 percent, compared to the prior year. The increase was due to an increase of \$48.8 million and \$65.9 million in operating costs and expenses for Ocean Transportation and Logistics, respectively.

Operating Income for the year ended December 31, 2017 decreased \$9.4 million, or 6.0 percent, compared to the prior year. The decrease was due to a decrease of \$18.1 million for Ocean Transportation, partially offset by an increase of \$8.7 million for Logistics in operating income.

The reasons for changes in operating revenue, operating costs and expenses, and operating income are described below, by business segment, in the Analysis of Operating Revenue and Income by Segment.

Table of Contents

Interest Expense was \$24.2 million for the year ended December 31, 2017, compared to \$24.1 million for the year ended December 31, 2016. The increase in interest expense was due to higher borrowings as a result of recent acquisitions and vessel construction payments, offset by higher capitalized interest.

Other Income (Expense), net for the year ended December 31, 2017 was income of \$2.1 million, compared to expense of \$2.1 million for the year ended December 31, 2016, and relates to the amortization of certain components of net periodic benefit costs or gains related to the Company's pension and post-retirement plans.

Income Taxes during the year ended December 31, 2017 was a non-cash income tax benefit of \$105.8 million, or 84.5 percent of income before income taxes, as compared to income tax expense of \$49.1 million, or 37.6 percent of income before income taxes in the prior year. The non-cash income tax benefit includes the benefit of \$154.0 million related to the remeasurement of the Company's deferred assets and liabilities, and other discrete tax adjustments resulting from applying the Tax Act as of December 31, 2017. Excluding the impact of the Tax Act, adjusted income tax expense would have been \$48.2 million, or 38.5 percent of income before income taxes for the year ended December 31, 2017. The adjusted 2017 income tax rate would have been higher than the 2016 income tax rate as the 2016 income tax rate was favorably impacted by the release of unrecognized tax benefit reserves during 2016.

Net Income during the year ended December 31, 2017 increased \$149.6 million, or 183.8 percent, compared to the prior year.

## ANALYSIS OF OPERATING REVENUE AND INCOME BY SEGMENT

Additional detailed information related to the operations and financial performance of the Company's reportable segments is included in Part II Item 6 and Note 3 to the Consolidated Financial Statements in Item 8 of Part II below. The following information should be read in relation to the information contained in those sections.

Ocean Transportation: 2018 compared with 2017:

(Dollars in millions)	Years Ended December 31,		Change		
	2018	2017			
Ocean Transportation revenue	\$ 1,641.3	\$ 1,571.8	\$ 69.5	4.4	%
Operating costs and expenses	(1,510.2)	(1,445.4)	(64.8)	4.5	%
Operating income	\$ 131.1	\$ 126.4	\$ 4.7	3.7	%
Operating income margin	8.0	% 8.0	%		

Volume (Forty-foot equivalent units (FEU) except for automobiles) (1)

Hawaii containers	148,700	149,800	(1,100)	(0.7)	%
Hawaii automobiles	63,100	67,000	(3,900)	(5.8)	%
Alaska containers	69,100	67,400	1,700	2.5	%
China containers	61,600	66,000	(4,400)	(6.7)	%
Guam containers	19,700	20,300	(600)	(3.0)	%
Other containers (2)	16,300	11,700	4,600	39.3	%

---

(1) Approximate volumes included for the period are based on the voyage departure date, but revenue and operating income are adjusted to reflect the percentage of revenue and operating income earned during the reporting period for voyages in transit at the end of each reporting period.

(2) Includes containers from services in various islands in Micronesia and the South Pacific, and in Okinawa, Japan.

Ocean Transportation revenue increased \$69.5 million, or 4.4 percent, during the year ended December 31, 2018, compared with the year ended December 31, 2017. This increase was primarily due to higher fuel surcharge revenue, higher average freight rates in China and higher revenue in Japan, partially offset by lower revenue in Guam.

On a year-over-year FEU basis, Hawaii container volume decreased by 0.7 percent primarily due to lower eastbound volume; Alaska volume increased by 2.5 percent primarily due to an increase in northbound volume, partially offset by a decrease in southbound volume as a result of a weaker-than-expected seafood season compared with the very strong seafood harvest levels in 2017; China volume was 6.7 percent lower due to fewer sailings and lower volume during the Lunar New Year period; Guam volume was 3.0 percent lower primarily due to increased competition; and Other containers volume increased 39.3 percent largely due to the Japan service.

Table of Contents

Ocean Transportation operating income increased \$4.7 million, or 3.7 percent, during the year ended December 31, 2018, compared with the year ended December 31, 2017. This increase was primarily due to higher average rates in China and Hawaii and a higher contribution from SSAT, partially offset by higher terminal handling costs and a lower contribution from Guam.

The Company's SSAT terminal joint venture investment contributed \$36.8 million during the year ended December 31, 2018, compared to a contribution of \$28.2 million during the year ended December 31, 2017. The increase was primarily attributable to higher lift volume.

Ocean Transportation: 2017 compared with 2016:

(Dollars in millions)	Years Ended December 31,		Change		
	2017	2016 (3)			
Ocean Transportation revenue	\$ 1,571.8	\$ 1,541.1	\$ 30.7	2.0	%
Operating costs and expenses	(1,445.4)	(1,396.6)	(48.8)	3.5	%
Operating income	\$ 126.4	\$ 144.5	\$ (18.1)	(12.5)	%
Operating income margin	8.0	% 9.4	%		
Volume (Forty-foot equivalent units (FEU) except for automobiles) (1)					
Hawaii containers	149,800	160,200	(10,400)	(6.5)	%
Hawaii automobiles	67,000	75,200	(8,200)	(10.9)	%
Alaska containers	67,400	68,400	(1,000)	(1.5)	%
China containers	66,000	61,600	4,400	7.1	%
Guam containers	20,300	24,800	(4,500)	(18.1)	%
Other containers (2)	11,700	10,500	1,200	11.4	%

(1) Approximate volumes included for the period are based on the voyage departure date, but revenue and operating income are adjusted to reflect the percentage of revenue and operating income earned during the reporting period for voyages in transit at the end of each reporting period.

(2) Includes containers from services in various islands in Micronesia and the South Pacific, and in Okinawa, Japan.

(3) 2016 includes the benefit of a 53rd week.

Ocean Transportation revenue increased \$30.7 million, or 2.0 percent, during the year ended December 31, 2017, compared with the year ended December 31, 2016. This increase was primarily due to higher fuel surcharge revenue and higher average freight rates in China, partially offset by lower construction-related volume, one less week and the absence of competitive volume gains in Hawaii and lower volume in Guam due to competitive losses and one less week.

On a year-over-year FEU basis, Hawaii container volume decreased by 6.5 percent primarily due to lower construction-related volume, one less week, and the absence of competitive volume gains in the prior year; Alaska



Edgar Filing: Matson, Inc. - Form 10-K

volume decreased by 1.5 percent primarily due to one less week, partially offset by higher southbound volume attributable to the stronger seafood season; China volume was 7.1 percent higher due to stronger demand for the Company's expedited service and additional sailings during the year; and Guam volume was 18.1 percent lower due to competitive losses and one less week.

Ocean Transportation operating income decreased \$18.1 million, or 12.5 percent, during the year ended December 31, 2017, compared with the year ended December 31, 2016. This decrease was primarily due to lower volumes in Hawaii, higher terminal handling costs and lower volume in Guam, partially offset by higher average freight rates in China, a higher contribution from SSAT, and favorable timing of fuel surcharge collections.

The Company's SSAT terminal joint venture investment contributed \$28.2 million during the year ended December 31, 2017, compared to a \$15.8 million contribution in the year ended December 31, 2016. The increase was primarily attributable to improved lift volume.

Logistics: 2018 compared with 2017:

(Dollars in millions)	Years Ended December 31,			
	2018	2017	Change	
Logistics revenue	\$ 581.5	\$ 475.1	\$ 106.4	22.4 %
Operating costs and expenses	(548.8)	(454.2)	(94.6)	20.8 %
Operating income	\$ 32.7	\$ 20.9	\$ 11.8	56.5 %
Operating income margin	5.6	% 4.4	%	

30

---

Table of Contents

Logistics revenue increased \$106.4 million, or 22.4 percent, during the year ended December 31, 2018, compared with the year ended December 31, 2017. This increase was primarily due to higher transportation brokerage revenue.

Logistics operating income increased \$11.8 million, or 56.5 percent, for the year ended December 31, 2018, compared with the year ended December 31, 2017. The increase was primarily due to higher contributions from transportation brokerage and freight forwarding.

Logistics: 2017 compared with 2016:

(Dollars in millions)	Years Ended December 31,				
	2017	2016	Change		
Logistics Revenue (1)	\$ 475.1	\$ 400.5	\$ 74.6	18.6	%
Operating costs and expenses (1)	(454.2)	(388.3)	(65.9)	17.0	%
Operating income (1)	\$ 20.9	\$ 12.2	\$ 8.7	71.3	%
Operating income margin (1)	4.4	% 3.0	%		

(1) Logistics operating results include Span Alaska operating results from the date of acquisition on August 4, 2016.

Logistics revenue increased \$74.6 million, or 18.6 percent, during the year ended December 31, 2017, compared with the year ended December 31, 2016. This increase was primarily due to the inclusion of freight forwarding revenue from the acquired Span Alaska business, higher intermodal volumes, and higher fuel surcharge revenue.

Logistics operating income increased \$8.7 million, or 71.3 percent, during the year ended December 31, 2017, compared with the year ended December 31, 2016. The increase was primarily due to the inclusion of freight forwarding operating results attributable to the acquired Span Alaska business, partially offset by lower intermodal yield.

## LIQUIDITY AND CAPITAL RESOURCES

Sources of liquidity available to the Company at December 31, 2018 compared to December 31, 2017, were as follows:

Edgar Filing: Matson, Inc. - Form 10-K

Cash and Cash Equivalents, Restricted Cash and Accounts Receivable: Cash and cash equivalents, restricted cash and accounts receivable, net, as of December 31, 2018 and 2017 is as follows:

(In millions)	As of December 31,		
	2018	2017	Change
Cash and cash equivalents	\$ 19.6	\$ 19.8	\$ (0.2)
Restricted cash	\$ 4.9	\$ —	\$ 4.9
Accounts receivable, net (1)	\$ 223.7	\$ 194.6	\$ 29.1

(1) Eligible accounts receivable of \$1.0 million and \$134.8 million at December 31, 2018 and 2017, respectively, were assigned to the CCF.

Changes in the Company's cash, cash equivalents and restricted cash for the years ended December 31, 2018, 2017 and 2016 were as follows:

(In millions)	As of December 31,				
	2018	2017	2016	2018-2017	2017-2016
Net cash provided by operating activities (1)	\$ 305.0	\$ 224.9	\$ 157.8	\$ 80.1	\$ 67.1
Net cash used in investing activities (2)	(260.3)	(276.9)	(320.7)	16.6	43.8
Net cash (used in) provided by financing activities (3)	(40.0)	57.9	151.3	(97.9)	(93.4)
Net increase (decrease) in cash, cash equivalents and restricted cash	4.7	5.9	(11.6)	(1.2)	17.5
Cash, cash equivalents, and restricted cash, beginning of the period	19.8	13.9	25.5	5.9	(11.6)
Cash, cash equivalents, and restricted cash, end of the period	\$ 24.5	\$ 19.8	\$ 13.9	\$ 4.7	\$ 5.9

Table of Contents

(1) Changes in Net Cash Provided by Operating Activities: Changes in net cash provided by operating activities for the years ended December 31, 2018, 2017 and 2016 were as follows:

(In millions)	Change	
	2018-2017	2017-2016
Net income from operations	\$ (122.0)	\$ 149.6
Non-cash deferred income taxes	157.2	(152.6)
Other non-cash related changes, net	(19.5)	11.5
Equity income and distributions from Terminal Joint Venture	15.9	5.1
Deferred dry-docking payments	35.4	4.6
Accounts receivable, net	(24.0)	(19.5)
Prepaid expenses and other assets	(10.2)	28.0
Accounts payable, accruals and other liabilities	50.8	18.3
Other long-term liabilities	(3.5)	22.1
Total	\$ 80.1	\$ 67.1

The change in deferred income taxes is primarily related to the remeasurement of the Company's deferred assets and liabilities, and other discrete tax adjustments resulting from applying the Tax Act as of December 31, 2017. The Company's share of income from the Terminal Joint Venture was \$36.8 million during the year ended December 31, 2018, compared to \$28.2 million in the prior year, while distributions from the Terminal Joint Venture increased to \$42.0 million during the year ended December 31, 2018, compared to \$17.5 million of distributions received in the prior year. Decrease in deferred dry-docking payments was due to fewer dry-docking activities during the year ended December 31, 2018, compared to the prior year. Changes in accounts receivable are due to increases in the amount of revenue invoiced and the timing of collections as of December 31, 2018, compared to the prior year. Changes in prepaid expenses and other assets are due to the timing of prepaid income taxes, changes in the amount of insurance related receivables and changes in other prepaid amounts as of December 31, 2018, compared to the prior year. Changes in accounts payable, accruals and other liabilities for the year ended December 31, 2018, compared to the prior year are due to the timing of payments associated with those liabilities.

(2) Changes in Net Cash Used in Investing Activities: Changes in net cash used in investing activities for the years ended December 31, 2018, 2017 and 2016 were as follows:

(In millions)	Change	
	2018-2017	2017-2016
Capitalized vessel construction expenditures	\$ (86.6)	\$ (157.5)
Cash deposits into CCF	(168.6)	(48.0)
Withdrawals from CCF	139.2	109.5
Other capital expenditures	(7.6)	29.9
Proceeds from disposal of property and equipment, net	136.5	(2.7)
Proceeds from sale of other investments	3.7	—
Payments for membership interests in Span Alaska, net of cash acquired	—	112.6
Total	\$ 16.6	\$ 43.8

Capitalized vessel construction expenditures (including capitalized interest and owners' items) was \$338.6 million for the year ended December 31, 2018, compared to \$252.0 million in the year ended December 31, 2017. The increase in capitalized vessel construction expenditures (including cash deposited into the CCF less cash withdrawals from the CCF which are used for vessel construction related payments) is due to the timing of progress payments related to the construction of four new vessels. Other capital expenditures (excluding capitalized vessel construction expenditures) was \$62.6 million for the year ended December 31, 2018, compared to \$55.0 million for the year ended December 31, 2017. The increase was primarily due to higher levels of capital expenditures during the year ended December 31, 2018, including capital expenditures related to the Hawaii Sand Island terminal and the Anchorage cross-dock facility, compared to the prior year. Proceeds from the disposal of property and equipment was \$136.3 million for the year ended December 31, 2018, included net proceeds of approximately \$106.0 million from the sale and leaseback of a vessel, and \$28.4 million from other container and equipment sale and leaseback transactions entered into during 2018. There were no sale and leaseback transactions in 2017. Proceeds from the sale of investments of \$3.7 million related to the surrender of life insurance policies.

Table of Contents

There were no acquisition related payments during the years ended December 31, 2018 and 2017. During the year ended December 31, 2016, the Company paid \$112.6 million related to the acquisition of Span Alaska (see Note 18 to the Consolidated Financial Statements in Item 8 of Part II below for additional information on the Company's acquisitions).

(3) Changes Net Cash Used in Financing Activities: Changes in net cash used in financing activities for the years ended December 31, 2018, 2017 and 2016 were as follows:

(In millions)	Change	
	2018-2017	2017-2016
Proceeds received from issuance of fixed interest debt	\$ —	\$ (275.0)
Repayments of fixed interest debt and capital leases	1.1	(9.6)
Borrowings under revolving credit facility, net	(120.0)	95.0
Repurchase of Matson common stock	19.3	18.7
Dividends paid	(1.6)	(1.6)
Payments of Span Alaska debt	—	81.9
Change in other payments, net	3.3	(2.8)
Total	\$ (97.9)	\$ (93.4)

Changes in the Company's debt are described below. During the year ended December 31, 2017, the Company repurchased \$19.3 million of Matson stock. There was no repurchase of Matson stock during the year ended December 31, 2018. Dividends paid was \$35.4 million for the year ended December 31, 2018, compared to \$33.8 million for the year ended December 31, 2017. There were no payments of acquisition related debt during the years ended December 31, 2018 or 2017. During the year ended December 31, 2016, the Company repaid all of Span Alaska's outstanding debt of \$81.9 million (see Note 18 to the Consolidated Financial Statements in Item 8 of Part II below for additional information on the Company's acquisitions).

Debt: Total debt as of December 31, 2018 and 2017 is as follows:

(In millions)	As of December 31,		Change
	2018	2017	
Revolving credit facility	\$ 235.0	\$ 205.0	\$ 30.0
Fixed interest debt	621.4	652.1	(30.7)
Total Debt	\$ 856.4	\$ 857.1	\$ (0.7)

Total debt decreased by \$0.7 million during the year ended December 31, 2018, compared to the prior year. Changes in debt primarily related to a net increase in revolving credit facility borrowing of \$30.0 million, primarily used to fund progress payments related to the construction of four new vessels, offset by repayments of fixed interest debt of \$30.7 million.

As of December 31, 2018, the Company had \$304.0 million of remaining availability under the revolving credit facility, with a maturity date of June 29, 2022. The Company's debt is described in Note 8 to the Consolidated Financial Statements in Item 8 of Part II.

Working Capital: The Company had negative working capital of \$52.4 million at December 31, 2018, compared to negative working capital of \$20.3 million at December 31, 2017.

Table of Contents

## CONTRACTUAL OBLIGATIONS, COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

## Contractual Obligations:

At December 31, 2018, the Company had the following estimated contractual obligations:

Contractual Obligations (in millions)	Payment Due By Period				Total
	2019	2020-2021	2022-2023	Thereafter	
Vessel construction obligations (1)	\$ 188.9	\$ 61.7	\$ —	\$ —	\$ 250.6
Total debt obligations (2)	42.1	102.6	354.8	356.9	856.4
Estimated interest on debt (3)	33.0	60.1	37.3	68.0	198.4
Vendor and other obligations (4)	29.4	—	—	—	29.4
Qualified defined benefit pension obligations (5)	13.2	27.3	28.6	75.0	144.1
Non-qualified pension obligations (5)	1.8	0.4	2.1	0.1	4.4
Post-retirement benefit obligations (5)	1.2	2.3	2.4	5.8	11.7
Multi-employer withdrawal obligations (6)	10.8	8.2	8.2	68.0	95.2
Operating lease obligations (7)	68.3	104.0	65.2	83.6	321.1
Total	\$ 388.7	\$ 366.6	\$ 498.6	\$ 657.4	\$ 1,911.3

- (1) Vessel construction obligations represent contractual agreements entered into for the construction of new vessels.
- (2) Total debt obligations include principal repayments of outstanding debt and capital leases (see Note 8 to the Consolidated Financial Statements in Item 8 of Part II below for additional information about debt).
- (3) Estimated interest on debt is determined based on: (i) the stated interest rate for fixed debt, and (ii) the estimated variable interest on revolving credit facility assuming the balance at December 31, 2018 remains outstanding until maturity.
- (4) Vendor and other obligations include: (i) non-cancellable contractual capital project obligations (excluding vessel construction obligations shown in (1) above); (ii) dry-docking related obligations; and (iii) other contractual obligations. Amounts are considered obligations if a contract has been agreed to specifying significant terms of the contract, and the amounts are not reflected in the Consolidated Balance Sheets.
- (5) Qualified defined benefit pension, non-qualified pension and post-retirement benefit obligations include estimated payments for the next ten years. The amounts noted in the column labeled "Thereafter" comprises estimated benefit payments for 2024 through 2028 (see Note 11 to the Consolidated Financial Statements in Item 8 of Part II below, for additional information).
- (6) Multi-employer withdrawal obligations relate to the discounted liability associated with Horizon's mass withdrawal from Puerto Rico's multi-employer ILA-PRSSA and the partial withdrawal liability associated with the Local 153 Fund of the OPEIU (see Note 12 to the Consolidated Financial Statements in Item 8 of Part II below, for additional information).
- (7) Operating lease obligations primarily consist of real estate and terminal leases, vessel charter leases, operations equipment and other leases entered into under non-cancellable arrangements that do not transfer the rights and risks of ownership to the Company (see Note 9 to the Consolidated Financial Statements in Item 8 of Part II below).



for additional information).

Estimated timing and amount of payments related to unrecognized tax benefits of \$15.1 million as of December 31, 2018 are excluded from the table due to the uncertainty of such timing and payments, if any.

Commitments, Contingencies and Off-Balance Sheet Arrangements:

Commitments and Contingencies: A description of other commitments and contingencies is set forth in Note 9, Note 11 and Note 17 to the Consolidated Financial Statements in Item 8 of Part II below, and is incorporated herein by reference.

Off-balance sheet Arrangements: Except as described below, the Company is not party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results in operations or cash flows.

Future minimum payments under operating leases are \$321.1 million as of December 31, 2018. In addition, the Company provided a lessor with a maximum residual value guarantee related to the lease of a vessel. Additional information related to leases and the vessel lease guarantee is set forth in Note 9 to the Consolidated Financial Statements in Item 8 of Part II below, and is incorporated herein by reference.

Table of Contents

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 2 to the Consolidated Financial Statements in Item 8 of Part II below. The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America, upon which the Company's Management Discussion and Analysis of Financial Condition and Results of Operations is based, requires that management exercise judgment when making accounting estimates about future events that may affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Future events and their effects cannot be determined with certainty and actual results will, inevitably, differ from those accounting estimates. These differences could be material.

The Company considers an accounting estimate to be critical if: (i)(a) the accounting estimate requires the Company to make assumptions that are difficult or subjective about matters that were highly uncertain at the time that the accounting estimate was made, (b) changes in the estimate are reasonably likely to occur in periods after the period in which the estimate was made, or (c) use of different estimates by the Company could have been used; and (ii) changes in those accounting estimates would have had a material impact on the financial condition or results of operations of the Company. The critical accounting estimates inherent in the preparation of the Company's Consolidated Financial Statements are described below. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors.

**Impairment of Long-Lived Assets, Intangible Assets and Goodwill:** The Company evaluates its long-lived assets, intangible assets and goodwill for possible impairment in the fourth quarter, or whenever events or changes in circumstances indicate that it is more likely than not that the fair value is less than its carrying amount. The Company has reporting units within the Ocean Transportation and Logistics reportable segments.

**Long-lived Assets and Finite-lived Intangible Assets:** Long-lived assets and finite-lived intangible assets are grouped at the lowest level reporting unit for which identifiable cash flows are available. In evaluating impairment, the estimated future undiscounted cash flows generated by each of these asset groups is compared with the carrying value recorded for each asset group to determine if its carrying value is not recoverable. If this review determines that the amount recorded will not be recovered, the amount recorded for the asset group is reduced to its estimated fair value. These asset impairment analyses are highly subjective because they require management to make assumptions and apply considerable judgments to, among other things, estimates of the timing and amount of future cash flows, expected useful lives of the assets, uncertainty about future events, including changes in economic conditions, changes in operating performance, changes in the use of the assets, and ongoing costs of maintenance and improvements of the assets, and thus, the accounting estimates may change from period to period. If management uses different assumptions or if different conditions occur in future periods, the Company's financial condition or its future operating results could be materially impacted. The Company has evaluated its long-lived assets and finite lived intangible assets for impairment and determined that the fair values are not less than the carrying amounts. No impairment charges related to long-lived assets and finite-lived intangible assets were recorded for the years ended December 31, 2018, 2017, and 2016.

Indefinite-life Intangible Assets and Goodwill: The Company's intangible assets include goodwill, customer relationships and a trade name. In estimating the fair value of a reporting unit, the Company uses a combination of a discounted cash flow model and fair value based on market multiples of earnings before income taxes, depreciation and amortization ("EBITDA"). The discounted cash flow approach requires the Company to use a number of assumptions, including market factors specific to the business, the amount and timing of estimated future cash flows to be generated by the business over an extended period of time, long-term growth rates for the business, and a discount rate that considers the risks related to the amount and timing of the cash flows. Although the assumptions used by the Company in its discounted cash flow model are consistent with the assumptions the Company used to generate its internal strategic plans and forecasts, significant judgment is required to estimate the amount and timing of future cash flows from the reporting unit and the risk of achieving those cash flows. When using market multiples of EBITDA, the Company makes judgments about the comparability of multiples in closed and proposed transactions. Accordingly, changes in assumptions and estimates, including, but not limited to, changes driven by external factors, such as industry and economic trends, and those driven by internal factors, such as changes in the Company's business strategy and its internal forecasts, could have a material effect on the Company's financial condition or its future operating results. The Company has evaluated its indefinite-life intangible assets and goodwill for impairment and determined that the respective fair value of goodwill attributed to the Ocean Transportation and the Logistics reporting units exceeded the

Table of Contents

carrying amount as of the date of the impairment review. No impairment charges of indefinite-life intangible assets and goodwill were recorded for the years ended December 31, 2018, 2017 and 2016.

**Legal Contingencies:** The Company's results of operations could be affected by significant litigation adverse to the Company, including, but not limited to, liability claims, antitrust claims, claims related to coastwise trading matters, lawsuits involving private plaintiffs or government agencies, and environment related matters. The Company records accruals for legal matters when the information available indicates that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Management makes adjustments to these accruals to reflect the impact and status of negotiations, settlements, rulings, advice of outside legal counsel and other information and events that may pertain to a particular matter. In making determinations of likely outcomes of litigation matters, the Company considers many factors. These factors include, but are not limited to, the nature of specific claims including un-asserted claims, the Company's experience with similar types of claims, the jurisdiction in which the matter is filed, input from outside legal counsel, the likelihood of resolving the matter through alternative dispute resolution mechanisms and the matter's current status. Predicting the outcome of claims and lawsuits, and estimating related costs and exposure involves substantial uncertainties that could cause actual costs to vary materially from those estimates.

**Uninsured Risks and Related Liabilities:** The Company is uninsured for certain risks but when feasible, many risks are mitigated by insurance. The Company purchases insurance with deductibles or self-insured retentions. Such insurance includes, but is not limited to, employee health, workers' compensation, marine liability, auto liability and physical damage to inland property, equipment and vessels. For certain risks, the Company elects to not purchase insurance because of excessive cost of insurance or the perceived remoteness of the risk. In addition, the Company retains all risk of loss that exceeds the limits of the Company's insurance policies.

When estimating its reserves for uninsured risks and related liabilities, the Company considers a number of factors, including historical claims experience, demographic factors, current trends, and analyses provided by independent third-parties. Periodically, management reviews its assumptions and estimates used to determine the adequacy of the Company's reserves for uninsured risks and related liabilities. The Company's uninsured risks and related liabilities contain uncertainties because management is required to apply judgment and make long-term assumptions to estimate the ultimate cost to settle reported claims, and of claims incurred but not reported, as of the balance sheet date. If management uses different assumptions or if different conditions occur in future periods, the Company's financial condition or its future operating results could be materially impacted.

**Pension and Post-Retirement Estimates:** The estimation of the Company's pension and post-retirement benefit expenses and liabilities requires that the Company make various assumptions. These assumptions include factors such as discount rates, expected long-term rate of return on pension plan assets, salary growth, health care cost trend rates, inflation, retirement rates, mortality rates and expected contributions. Actual results that differ from the assumptions made could materially affect the Company's financial condition or its future operating results. The effects of changing assumptions are included in unamortized net gains and losses, which directly affect accumulated other comprehensive income (loss). Additionally, these unamortized gains and losses are amortized and reclassified to income (loss) over future periods.

Additional information about the Company's benefit plans and assumptions used is included in Note 11 to the Consolidated Financial Statements in Item 8 of Part II below.

**Income Taxes:** The Company makes certain estimates and judgments in determining income tax expense for Consolidated Financial Statement purposes. These estimates and judgments are applied in the calculation of taxable income, tax credits, tax benefits and deductions, and in the calculation of certain deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue, costs and expenses for tax purposes. Deferred tax assets and liabilities are adjusted to the extent necessary to reflect tax rates expected to be in effect when the temporary differences reverse. Significant changes to these estimates may result in an increase or decrease to the Company's income taxes in a subsequent period.

The Company records a valuation allowance if, based on the weight of available evidence, management believes that it is more likely than not that some portion or all of a recorded deferred tax asset would not be realized in future periods.

The Company's valuation allowance against deferred tax assets was \$11.5 million and \$13.0 million at December 31, 2018 and 2017, respectively, and related to accumulated operating losses of a foreign subsidiary and various state net operating losses that the Company determined may not be realized in future periods.

Table of Contents

The calculation of deferred tax assets and liabilities may be impacted by various factors including but not limited to changes in tax rates; changes in tax laws, regulations, and rulings; changes in interpretations of existing tax laws, regulations and rulings; and changes in the evaluation of the Company's ability to realize deferred tax assets including operating loss and tax credit carryforwards. Deferred tax assets and deferred tax liabilities are adjusted to the extent necessary to reflect tax rates expected to be in effect when the temporary differences reverse. On December 22, 2017, the Tax Act was signed into law. The Tax Act includes numerous changes in existing tax law, including a reduction in the federal corporate income tax rate from 35 percent to 21 percent. The rate reduction and other changes took effect on January 1, 2018. Other changes such as remeasurement of deferred tax assets and liabilities are effective as of the fourth quarter of 2017.

In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertain tax positions taken or expected to be taken with respect to the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could materially impact the Company's financial condition or its future operating results.

Additional information about the Company's income taxes is included in Note 10 to the Consolidated Financial Statements in Item 8 of Part II below.

OTHER MATTERS

New Accounting Pronouncements: See Note 2 to the Consolidated Financial Statements in Item 8 of Part II below for additional information on new accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Debt and Interest Rate Risks: The Company is exposed to changes in interest rates, primarily as a result of its borrowing and investing activities used to maintain liquidity and to fund business operations, including borrowings under its revolving credit facility. In order to manage its exposure to changes in interest rates, the Company utilizes a balanced mix of both fixed-rate and variable-rate debt with various maturity dates. The nature and amount of the Company's outstanding debt is expected to fluctuate as a result of future business requirements, market conditions and other factors. The Company's outstanding variable and fixed rate debt was \$235.0 million and \$621.4 million as of December 31, 2018, and \$205.0 million and \$652.1 million as of December 31, 2017, respectively. Additional information about the Company's debt is included in Note 8 to the Consolidated Financial Statements in Item 8 of Part II below.

Other than in certain events of default, the Company is not obligated to prepay its variable and fixed rate debt prior to maturity. For fixed rate debt, changes in market interest rates would not affect the Company's financial condition or results of operations. For variable rate debt, a 100 basis point increase in the variable interest rate would have an impact on the Company's results of operations for 2018 of approximately \$2.4 million, assuming the December 31, 2018 balance of the variable rate debt was outstanding throughout 2018. This change is not expected to have a material impact on the fair value of the Company's variable rate debt.

**Investment Risks:** From time to time, the Company may invest its excess cash in short-term money market funds that purchase government securities or corporate debt securities, or in other deposit products allowed under the Company's Cash Investment Policy. These money market funds and deposits maintain a weighted average maturity of less than 90 days, and accordingly, a one percent change in interest rates is not expected to have a material impact on the fair value of these investments or on interest income. The Company had a nominal amount on deposit in money market funds as of December 31, 2018 and 2017.

Through its Capital Construction Fund ("CCF"), the Company may, from time to time, invest in money market funds or other eligible investments. The Company's cash deposits in the CCF at December 31, 2018 was nominal, and for the year ended December 31, 2017 was \$0.9 million.

**Foreign Currency Risks:** The Company has no material exposure to foreign currency risks, although it is indirectly affected by changes in currency rates to the extent that changes in rates affect tourism in Hawaii, Guam, Alaska and other locations. Transactions related to its China service are primarily denominated in U.S. dollars, and therefore, a one percent change in the Chinese Yuan exchange rate would not have a material effect on the Company's results of operations. Transactions related to the Company's South Pacific service are primarily denominated in New Zealand dollars. However, a one percent change in the New Zealand dollar exchange rate is not expected to have a material effect on the Company's results of operations.

Table of Contents

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	Page
<u>Management's Annual Report</u>	
<u>on Internal Control Over</u>	
<u>Financial Reporting</u>	39
<u>Report of Independent</u>	
<u>Registered Public</u>	
<u>Accounting Firm</u>	40
<u>Consolidated Statements of</u>	
<u>Income and Comprehensive</u>	
<u>Income</u>	41
<u>Consolidated Balance</u>	
<u>Sheets</u>	42
<u>Consolidated Statements of</u>	
<u>Cash Flows</u>	43
<u>Consolidated Statements of</u>	
<u>Shareholders' Equity</u>	44
<u>Notes to Consolidated</u>	
<u>Financial Statements</u>	45
<u>1. Description of</u>	
<u>the Business</u>	45
<u>2. Significant</u>	
<u>Accounting</u>	
<u>Policies</u>	45
<u>3. Reportable</u>	
<u>Segments</u>	52
<u>4. Investment in</u>	
<u>Terminal Joint</u>	
<u>Venture</u>	54
<u>5. Property and</u>	
<u>Equipment</u>	54
<u>6. Goodwill and</u>	
<u>Intangible</u>	
<u>Assets</u>	55
<u>7. Capital</u>	
<u>Construction</u>	
<u>Fund</u>	56
<u>8. Debt</u>	57
<u>9. Leases</u>	59
<u>10. Income Taxes</u>	60



<u>11.</u>	<u>Pension and Post-Retirement Plans</u>	63
<u>12.</u>	<u>Multi-Employer Withdrawal Liabilities</u>	70
<u>13.</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	71
<u>14.</u>	<u>Earnings Per-Share</u>	71
<u>15.</u>	<u>Share-Based Awards</u>	71
<u>16.</u>	<u>Fair Value of Financial Instruments</u>	73
<u>17.</u>	<u>Commitments and Contingencies</u>	73
<u>18.</u>	<u>Business Combinations</u>	74
<u>19.</u>	<u>Quarterly Information (Unaudited)</u>	75

38

---

Table of Contents

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Matson, Inc. and subsidiaries (the "Company") has the responsibility for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting only provides reasonable assurance with respect to financial statement presentation and preparation. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on its assessment, management believes that, as of December 31, 2018, the Company's internal control over financial reporting is effective. The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the Company's internal control over financial reporting.

/s/ Matthew J. Cox  
Matthew J. Cox  
Chairman and Chief Executive Officer

/s/ Joel M. Wine  
Joel M. Wine  
Senior Vice President and Chief Financial Officer

March 4, 2019

March 4, 2019

39

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Matson, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Matson, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the

risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

#### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP  
Honolulu, Hawaii  
March 4, 2019

We have served as the Company's auditor since at least 1976; however, an earlier year could not be reliably determined.

Table of Contents

## MATSON, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In millions, except per-share amounts)	Years Ended December 31,		
	2018	2017	2016
Operating Revenue:			
Ocean Transportation	\$ 1,641.3	\$ 1,571.8	\$ 1,541.1
Logistics	581.5	475.1	400.5
Total Operating Revenue	2,222.8	2,046.9	1,941.6
Costs and Expenses:			
Operating costs	(1,875.0)	(1,721.0)	(1,617.6)
Equity in income of Terminal Joint Venture	36.8	28.2	15.8
Selling, general and administrative	(220.8)	(206.8)	(183.1)
Total Costs and Expenses	(2,059.0)	(1,899.6)	(1,784.9)
Operating Income	163.8	147.3	156.7
Interest expense	(18.7)	(24.2)	(24.1)
Other income (expense), net	2.6	2.1	(2.1)
Income before Income Taxes	147.7	125.2	130.5
Income taxes	(38.7)	105.8	(49.1)
Net Income	\$ 109.0	\$ 231.0	\$ 81.4
Other Comprehensive Income (Loss), Net of Income Taxes:			
Net Income	\$ 109.0	\$ 231.0	\$ 81.4
Other Comprehensive Income (Loss):			
Net gain in prior service cost	—	0.8	24.1
Amortization of prior service cost	(4.7)	(4.0)	(2.2)
Amortization of net loss	1.1	1.7	1.2
Other adjustments	—	0.2	0.2
Total Other Comprehensive Income (Loss)	(3.6)	(1.3)	23.3
Comprehensive Income	\$ 105.4	\$ 229.7	\$ 104.7
Basic Earnings Per-Share:	\$ 2.55	\$ 5.38	\$ 1.89
Diluted Earnings Per-Share:	\$ 2.53	\$ 5.35	\$ 1.87
Weighted Average Number of Shares Outstanding:			
Basic	42.7	42.9	43.1
Diluted	43.0	43.2	43.5

See Notes to Consolidated Financial Statements.



Table of Contents

## MATSON, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In millions)	As of December 31,	
	2018	2017
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 19.6	\$ 19.8
Accounts receivable, net	223.7	194.6
Prepaid expenses and other assets	75.1	51.6
Total current assets	318.4	266.0
Long-term Assets:		
Investment in Terminal Joint Venture	87.0	93.2
Property and equipment, net	1,366.6	1,165.7
Goodwill	327.8	327.8
Intangible assets, net	214.0	225.2
Deferred dry-docking costs, net	67.1	89.2
Other long-term assets	49.5	84.5
Total long-term assets	2,112.0	1,985.6
Total Assets	\$ 2,430.4	\$ 2,251.6
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Current portion of debt	\$ 42.1	\$ 30.8
Accounts payable	246.8	175.1
Accruals and other liabilities	81.9	80.4
Total current liabilities	370.8	286.3
Long-term Liabilities:		
Long-term debt	814.3	826.3
Deferred income taxes	312.7	283.6
Other long-term liabilities	177.3	178.2
Total long-term liabilities	1,304.3	1,288.1
Commitments and Contingencies (Note 17)		
Shareholders' Equity:		
Common stock - common stock without par value; authorized, 150.0 million shares (\$0.75 stated value per share); outstanding, 42.7 million shares in 2018 and 42.5 million shares in 2017	32.0	31.9
Additional paid in capital	297.8	289.7
Accumulated other comprehensive loss, net	(34.5)	(24.9)
Retained earnings	460.0	380.5
Total shareholders' equity	755.3	677.2
Total Liabilities and Shareholders' Equity	\$ 2,430.4	\$ 2,251.6

See Notes to Consolidated Financial Statements.





Table of Contents

## MATSON, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Years Ended December 31,		
	2018	2017	2016
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 109.0	\$ 231.0	\$ 81.4
Reconciling adjustments:			
Depreciation and amortization	94.4	101.2	97.1
Deferred income taxes	29.3	(127.9)	24.7
(Gain) Loss on disposal of property and equipment	(1.9)	3.0	0.9
Share-based compensation expense	12.1	11.1	11.2
Equity in income of Terminal Joint Venture	(36.8)	(28.2)	(15.8)
Distributions from Terminal Joint Venture	42.0	17.5	—
Tax benefit from equity issuance	—	—	2.2
Tax benefit from stock-based compensation	—	—	(0.3)
Changes in assets and liabilities:			
Accounts receivable, net	(29.1)	(5.1)	14.4
Deferred dry-docking payments	(19.2)	(54.6)	(59.2)
Deferred dry-docking amortization	37.4	46.2	38.9
Prepaid expenses and other assets	4.2	14.4	(13.6)
Accounts payable, accruals and other liabilities	71.2	20.4	2.1
Other long-term liabilities	(7.6)	(4.1)	(26.2)
Net cash provided by operating activities	305.0	224.9	157.8
<b>Cash Flows From Investing Activities:</b>			
Capitalized vessel construction expenditure	(338.6)	(252.0)	(94.5)
Other capital expenditures	(62.6)	(55.0)	(84.9)
Proceeds from (payments for) disposal of property and equipment	136.3	(0.2)	2.5
Cash deposits into Capital Construction Fund	(340.0)	(171.4)	(123.4)
Withdrawals from Capital Construction Fund	340.9	201.7	92.2
Proceeds from sale of other investments	3.7	—	—
Payments for membership interests in Span Alaska, net of cash acquired	—	—	(112.6)
Net cash used in investing activities	(260.3)	(276.9)	(320.7)
<b>Cash Flows From Financing Activities:</b>			
Proceeds from issuance of debt	—	—	275.0
Repayments of debt	(30.0)	(30.0)	(20.5)
Repayment of capital leases	(0.7)	(1.8)	(1.7)
Proceeds from revolving credit facility	963.9	469.0	1,103.0
Repayments of revolving credit facility	(933.9)	(319.0)	(1,048.0)
Payment of financing costs	—	(1.7)	—

Edgar Filing: Matson, Inc. - Form 10-K

Proceeds from issuance of common stock	0.7	1.9	1.2
Dividends paid	(35.4)	(33.8)	(32.2)
Repurchase of Matson common stock	—	(19.3)	(38.0)
Tax withholding related to net share settlements of restricted stock units	(4.6)	(7.4)	(5.9)
Tax benefit from stock-based compensation	—	—	0.3
Payments of Span Alaska debt	—	—	(81.9)
Net cash (used in) provided by financing activities	(40.0)	57.9	151.3
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	4.7	5.9	(11.6)
Cash, Cash Equivalents and Restricted Cash, Beginning of the Year	19.8	13.9	25.5
Cash, Cash Equivalents and Restricted Cash, End of the Year	\$ 24.5	\$ 19.8	\$ 13.9
Reconciliation of Cash, Cash Equivalents, and Restricted Cash, at End of the Year:			
Cash and Cash Equivalents	\$ 19.6	\$ 19.8	\$ 13.9
Restricted Cash	4.9	—	—
Total Cash, Cash Equivalents and Restricted Cash, End of the Year	\$ 24.5	\$ 19.8	\$ 13.9
Supplemental Cash Flow Information:			
Interest paid, net of capitalized interest	\$ 18.3	\$ 23.9	\$ 21.6
Income tax paid, net of income tax refunds	\$ 5.2	\$ 2.6	\$ 15.6
Non-cash Information:			
Capital expenditures included in accounts payable, accruals and other liabilities	\$ 4.1	\$ 1.2	\$ 4.1

See Notes to Consolidated Financial Statements.

Table of Contents

## MATSON, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the three years ended December 31, 2018

	Common Stock Stated		Additional Paid In	Accumulated Other Comprehensive	Retained	
(In millions, except per-share amounts)	Shares	Value	Capital	Income (Loss)	Earnings	Total
Balance at December 31, 2015	43.5	\$ 32.6	\$ 287.9	\$ (46.9)	\$ 177.0	\$ 450.6
Net income	—	—	—	—	81.4	81.4
Other comprehensive income, net of tax	—	—	—	23.3	—	23.3
Tax benefit from stock-based compensation and share withholding	—	—	2.2	—	—	2.2
Share-based compensation	—	—	11.2	—	—	11.2
Shares issued, net of shares withheld for employee taxes	0.3	0.2	(4.9)	—	—	(4.7)
Shares repurchased	(0.9)	(0.7)	(6.6)	—	(29.6)	(36.9)
Dividends (\$0.74 per share)	—	—	—	—	(32.2)	(32.2)
Balance at December 31, 2016	42.9	32.1	289.8	(23.6)	196.6	494.9
Net income	—	—	—	—	231.0	231.0
Other comprehensive loss, net of tax	—	—	—	(1.3)	—	(1.3)
Share-based compensation	—	—	11.1	—	—	11.1
Shares issued, net of shares withheld for employee taxes	0.3	0.3	(5.7)	—	—	(5.4)
Shares repurchased	(0.7)	(0.5)	(5.5)	—	(13.3)	(19.3)
Dividends (\$0.78 per share)	—	—	—	—	(33.8)	(33.8)
Balance at December 31, 2017	42.5	31.9	289.7	(24.9)	380.5	677.2
Net income	—	—	—	—	109.0	109.0
Other comprehensive loss, net of tax	—	—	—	(9.6)	6.0	(3.6)
Share-based compensation	—	—	12.1	—	—	12.1
Shares issued, net of shares withheld for employee taxes	0.2	0.1	(4.0)	—	—	(3.9)
Shares repurchased	—	—	—	—	(0.1)	(0.1)
Dividends (\$0.82 per share)	—	—	—	—	(35.4)	(35.4)
Balance at December 31, 2018	42.7	\$ 32.0	\$ 297.8	\$ (34.5)	\$ 460.0	\$ 755.3

See Notes to Consolidated Financial Statements.

44

---

Table of Contents

MATSON, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

Matson, Inc., a holding company incorporated in January 2012 in the State of Hawaii, and its subsidiaries (“Matson” or the “Company”), is a leading provider of ocean transportation and logistics services. The Company consists of two segments, Ocean Transportation and Logistics. For financial information on the Company’s reportable segments for the three years ended December 31, 2018, see Note 3.

**Ocean Transportation:** Matson’s Ocean Transportation business is conducted through Matson Navigation Company, Inc. (“MatNav”), a wholly-owned subsidiary of Matson, Inc. Founded in 1882, MatNav provides a vital lifeline of ocean freight transportation services to the domestic non-contiguous economies of Hawaii, Alaska and Guam, and to other island economies in Micronesia. MatNav also operates a premium, expedited service from China to Long Beach, California, and provides services to Okinawa, Japan and various islands in the South Pacific. In addition, subsidiaries of MatNav provide container stevedoring, refrigerated cargo services, inland transportation and other terminal services for MatNav and other ocean carriers on the Hawaiian islands of Oahu, Hawaii, Maui and Kauai, and in the Alaska locations of Anchorage, Kodiak and Dutch Harbor.

Matson has a 35 percent ownership interest in SSA Terminals, LLC (“SSAT”), a joint venture between Matson Ventures, Inc., a wholly-owned subsidiary of MatNav, and SSA Ventures, Inc. (“SSA”), a subsidiary of Carrix, Inc. (“Terminal Joint Venture”). SSAT provides terminal and stevedoring services to various carriers at seven terminal facilities on the U.S. West Coast, including four facilities which are used by MatNav. Matson records its share of income from the Terminal Joint Venture in costs and expenses in the Consolidated Statements of Income and Comprehensive Income, and within the Ocean Transportation segment due to the nature of SSAT’s operations.

**Logistics:** Matson’s Logistics business is conducted through Matson Logistics, Inc. (“Matson Logistics”), a wholly-owned subsidiary of MatNav. Established in 1987, Matson Logistics is an asset-light business that provides a variety of logistics services to its customers including: (i) multimodal transportation brokerage of domestic and international rail intermodal services, long-haul and regional highway trucking services, specialized hauling, flat-bed and project services, less-than-truckload services, and expedited freight services (collectively “Transportation Brokerage” services); (ii) less-than-container load consolidation (“LCL”) and freight forwarding services (collectively “Freight Forwarding” services); (iii) warehousing and distribution services; and (iv) supply chain management, non-vessel operating common carrier (“NVOCC”) freight forwarding and other services.

Recent Acquisition: On August 4, 2016, Matson Logistics completed its acquisition of Span Intermediate, LLC (“Span Alaska”), a market leading provider of LCL consolidation and freight forwarding services to Alaska (the “Span Alaska Acquisition”) (see Note 18).

## 2.SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The Consolidated Financial Statements include the accounts of Matson, Inc. and all wholly-owned subsidiaries, after elimination of intercompany amounts and transactions. Significant investments in businesses, partnerships, and limited liability companies in which the Company does not have a controlling financial interest, but has the ability to exercise significant influence, are accounted for under the equity method. A controlling financial interest is one in which the Company has a majority voting interest or one in which the Company is the primary beneficiary of a variable interest entity. The Company accounts for its investment in the Terminal Joint Venture using the equity method of accounting (see Note 4). The Consolidated Financial Statements include the accounts and activities of Span Alaska from acquisition date on August 4, 2016 (see Note 18).

Fiscal Year: The period end for Matson, Inc. is December 31. The period end for MatNav occurred on the last Friday in December, except for Matson Logistics Warehousing, Inc. whose period closed on December 31. Included in these Consolidated Financial Statements are 52 weeks in the 2018 and 2017 fiscal years, and 53 weeks in the 2016 fiscal year, for MatNav.

Table of Contents

**Foreign Currency Transactions:** The United States (U.S.) dollar is the functional currency for substantially all of the financial statements of the Company's foreign subsidiaries. Foreign currency denominated assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at exchange rates existing at the respective balance sheet dates. Translation adjustments resulting from fluctuations in exchange rates are recorded as a component of accumulated other comprehensive loss (gain) within shareholders' equity. The Company translates the result of operations of its foreign subsidiaries at the average exchange rate during the respective periods. Gains and losses resulting from foreign currency transactions are included in selling, general and administrative costs in the Consolidated Statements of Income and Comprehensive Income.

**Use of Estimates:** The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported. Estimates and assumptions are used for, but not limited to: impairment of investments; impairment of long-lived assets, intangible assets and goodwill; capitalized interest; allowance for doubtful accounts; legal contingencies; uninsured risks and related liabilities; accrual estimates; pension and post-retirement estimates; multi-employer withdrawal liabilities; and income taxes. Future results could be materially affected if actual results differ from these estimates and assumptions.

**Immaterial Correction of an Error in Previously Issued Financial Statements:** Subsequent to the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2017, the Company determined that it had incurred a partial withdrawal liability related to the Office & Professional Employees International Union ("OPEIU"), Local 153 Pension Fund (the "Local 153 Fund"). The partial withdrawal liability resulted from a decline in the number of contribution base units related to the Local 153 Fund caused by Horizon Lines, Inc. ("Horizon") terminating all of its operations in Puerto Rico during the first quarter of 2015, prior to the Company acquiring Horizon on May 29, 2015.

Accordingly, the Company corrected this error by recording an increase in other long-term liabilities of \$6.7 million, a reduction in deferred income taxes of \$2.6 million, and a corresponding net adjustment to goodwill of \$4.1 million for the years ended December 31, 2015, 2016 and 2017. For the year ended December 31, 2017, the \$2.6 million deferred income taxes adjustment was reduced by \$1.0 million to reflect the remeasurement tax effects resulting from the Tax Cut and Jobs Act of 2017 (the "Tax Act"). This had the corresponding effect of increasing income taxes and decreasing net income by \$1.0 million during the year ended December 31, 2017. There was no impact to net income for any other years presented. The misstatement had no net impact on the Company's Consolidated Statements of Cash Flows. The Company believes the correction of this error is immaterial to previously issued Consolidated Financial Statements for all prior periods.

**Cash, Cash Equivalents and Restricted Cash:** Cash equivalents consist of highly-liquid investments with original maturities of three months or less. The Company carries these investments at cost, which approximates fair value. Outstanding checks in excess of funds on deposit totaled \$16.4 million and \$18.7 million at December 31, 2018 and 2017, respectively, and are included in current liabilities in the Consolidated Balance Sheets. Restricted cash relates to amounts that are subject to contractual restrictions and are not readily available. Restricted cash was \$4.9 million at December 31, 2018, and is included in prepaid expenses and other assets in the Consolidated Balance Sheet. There were no restricted cash amounts at December 31, 2017.



Accounts Receivable, net: Accounts receivable represents amounts due from trade customers arising in the normal course of business. Accounts receivable are shown net of allowance for doubtful accounts receivable in the Consolidated Balance Sheets. At December 31, 2018, and 2017, the Company had assigned \$1.0 million and \$134.8 million of eligible accounts receivable, respectively, to the Capital Construction Fund (see Note 7).

Allowance for Doubtful Accounts: Allowance for doubtful accounts receivable is established by management based on estimates of collectability. Estimates of collectability are principally based on an evaluation of the current financial condition of the customer and the potential risks to collection, the customer's payment history and other factors which are regularly monitored by the Company.

46

---

Table of Contents

Changes in the allowance for doubtful accounts receivable for the three years ended December 31, 2018, 2017 and 2016 were as follows:

Year (in millions)	Balance at Beginning of Year	Expense (Recovery) (1)	Write-offs and Other	Balance at End of Year
2018	\$ 4.6	\$ 0.8	\$ (0.6)	\$ 4.8
2017	\$ 4.2	\$ 1.0	\$ (0.6)	\$ 4.6
2016	\$ 6.6	\$ (0.3)	\$ (2.1)	\$ 4.2

(1) Expense is shown net of amounts recovered from previously reserved doubtful accounts.

Prepaid Expenses and Other Assets: Prepaid expenses and other assets consist of the following at December 31, 2018 and 2017:

Prepaid Expenses and Other Assets (in millions)	As of December 31,	
	2018	2017
Income tax receivables	\$ 26.8	\$ 2.6
Prepaid fuel	16.3	14.4
Prepaid insurance and insurance related receivables	12.6	19.3
Prepaid operating expenses	6.8	6.3
Restricted cash - vessel construction obligations	4.9	—
Other	7.7	9.0
Total	\$ 75.1	\$ 51.6

Other Long-Term Assets: Other long-term assets consist of the following at December 31, 2018 and 2017:

Other Long-Term Assets (in millions)	As of December 31,	
	2018	2017
Income tax receivables	\$ 21.5	\$ 50.2
Vessel and equipment spare parts	13.1	12.7
Insurance related receivables	11.2	12.9
Deferred Charges and other	3.7	7.8
Capital construction fund - cash on deposit (see Note 7)	—	0.9
Total	\$ 49.5	\$ 84.5

Impairment of Terminal Joint Venture Investment: The Company's investment in its Terminal Joint Venture, a related party, is reviewed for impairment annually, or whenever there is evidence that fair value may be below its carrying cost. No impairment was identified during the years ended December 31, 2018, 2017 and 2016.

Edgar Filing: Matson, Inc. - Form 10-K

Property and Equipment: Property and equipment are stated at cost. Certain costs incurred in the development of internal-use software are capitalized. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property and equipment range up to the following maximum life:

Classification	Life
Vessels	40 years
Machinery and equipment	30 years
Terminal facilities	35 years

Capitalized Interest: The Company entered into agreements with shipyards for the construction of four new vessels to be utilized within the Company's operations (see Note 5). The Company is funding the construction of these vessels through borrowings and cash flows generated by the Company. The Company determined that the construction of these vessels are considered qualifying assets for the purposes of capitalizing interest on these assets.

The Company's policy is to capitalize interest costs during the period the qualified assets are being readied for their intended use. The amount of capitalized interest is calculated based on the amount of payments incurred related to the construction of these vessels using a weighted average interest rate. The weighted average interest rate is determined using the Company's average borrowings outstanding during the period. Capitalized interest is included in vessel construction in progress in property and equipment in the Company's Consolidated Balance Sheets (see Note 5). During

Table of Contents

the years ended December 31, 2018, 2017 and 2016, the Company capitalized \$18.7 million, \$7.5 million and \$2.1 million of interest related to the construction of new vessels, respectively.

**Deferred Dry-docking Costs:** U.S. flagged vessels must meet specified seaworthiness standards established by U.S. Coast Guard rules and classification society rules. These standards require U.S. flagged vessels to undergo two dry-docking inspections within a five-year period, with a maximum of 36 months between them. However, U.S. flagged vessels that are enrolled in the U.S. Coast Guard's Underwater Survey in Lieu of Dry-docking ("UWILD") program are allowed to have their Intermediate Survey dry-docking requirement met with a less costly underwater inspection. Non-U.S. flag vessels are required to meet applicable classification society rules and their own Port State standards for seaworthiness, which also mandate vessels to undergo two dry-docking inspections every five years.

The Company is responsible for maintaining its vessels in compliance with U.S. and international standards. As costs associated with dry-docking inspections provide future economic benefits to the Company through continued operation of the vessels, the costs are deferred and amortized until the next regulatory scheduled dry-docking, which is usually over a two to five-year period. Amortization of deferred dry-docking costs are charged to operating expenses of the Ocean Transportation segment in the Consolidated Statements of Income and Comprehensive Income. Routine vessel maintenance and repairs are charged to expense as incurred.

**Goodwill and Intangible Assets:** Goodwill and intangible assets arise as a result of acquisitions made by the Company (see Notes 6 and 18). Intangible assets consists of customer relationships which are being amortized using the straight-line method over the expected useful lives ranging from 3 to 21 years, and a trade name that has an indefinite life.

**Impairment of Long-Lived Assets, Intangible Assets and Goodwill:** The Company evaluates its long-lived assets, including intangible assets and goodwill for possible impairment in the fourth quarter, or whenever events or changes in circumstances indicate that it is more likely than not that the fair value is less than its carrying amount. The Company has reporting units within the Ocean Transportation and Logistics reportable segments.

**Long-lived Assets and Finite-lived Intangible Assets:** Long-lived assets and finite-lived intangible assets are grouped at the lowest level for which identifiable cash flows are available. In evaluating impairment, the estimated future undiscounted cash flows generated by each of these asset groups is compared with the amount recorded for each asset group to determine if its carrying value is not recoverable. If this review determines that the amount recorded will not be recovered, the amount recorded for the asset group is reduced to its estimated fair value. No impairment charges of long-lived assets and finite-lived intangible assets were recorded for the years ended December 31, 2018, 2017 and 2016.

Edgar Filing: Matson, Inc. - Form 10-K

Indefinite-life Intangible Assets and Goodwill: In estimating the fair value of a reporting unit, the Company uses a combination of a discounted cash flow model and fair value based on market multiples of earnings before interest, taxes, depreciation and amortization. Based upon the Company's evaluation of its indefinite-life intangible assets and goodwill for impairment, the Company determined that the fair value of each reporting unit exceeds book value. No impairment charges of indefinite-life intangible assets and goodwill were recorded for the years ended December 31, 2018, 2017 and 2016.

Accruals and other liabilities: Accruals and other liabilities consist of the following at December 31, 2018 and 2017:

Accruals and Other Liabilities (in millions)	As of December 31,	
	2018	2017
Payroll and vacation related accruals	\$ 25.7	\$ 24.7
Employee incentives and other related accruals	19.5	17.4
Uninsured risks and related liabilities - short term	9.9	15.4
Deferred revenues	5.7	5.0
Interest on debt	5.1	5.4
Multi-employer withdrawal liabilities - short term (see Note 12)	10.8	4.1
Pension and post-retirement liabilities - short term (see Note 11)	3.0	3.0
Other short-term liabilities	2.2	5.4
Total	\$ 81.9	\$ 80.4

Table of Contents

Other long-term liabilities: Other long-term liabilities consist of the following at December 31, 2018 and 2017:

Other Long-Term Liabilities (in millions)	As of December 31,	
	2018	2017
Pension and post-retirement liabilities (see Note 11)	\$ 79.4	\$ 75.1
Multi-employer withdrawal liability (see Note 12)	56.6	65.1
Uninsured risks and related liabilities	27.3	29.5
Other long-term liabilities	14.0	8.5
Total	\$ 177.3	\$ 178.2

**Pension and Post-Retirement Plans:** The Company is a member of the Pacific Maritime Association (“PMA”) and the Hawaii Stevedoring Industry Committee, which negotiate multi-employer pension plans covering certain shoreside bargaining unit personnel. The Company directly negotiates multi-employer pension plans covering other bargaining unit personnel. Pension costs are accrued in accordance with contribution rates established by the PMA, the parties to a plan or the trustees of a plan. Several trustee, non-contributory, single-employer defined benefit plans and defined contribution plans cover substantially all other employees.

The estimation of the Company’s pension and post-retirement benefit expenses and liabilities requires that the Company make various assumptions. These assumptions include factors such as discount rates, expected long-term rate of return on pension plan assets, salary growth, health care cost trend rates, inflation, retirement rates, mortality rates, and expected contributions. Actual results that differ from the assumptions made could materially affect the Company’s financial condition or its future operating results. Additional information about the Company’s pension and post-retirement plans is included in Note 11.

**Uninsured Risks and Related Liabilities:** The Company is uninsured for certain risks but when feasible, many risks are mitigated by insurance. The Company purchases insurance with deductibles or self-insured retentions. Such insurance includes, but is not limited to, employee health, workers’ compensation, marine liability, auto liability and physical damage to inland property, equipment and vessels. For certain risks, the Company elects to not purchase insurance because of excessive cost of insurance or the perceived remoteness of the risk. In addition, the Company retains all risk of loss that exceeds the limits of the Company’s insurance policies.

When estimating its reserves for uninsured risks and related liabilities, the Company considers a number of factors, including historical claims experience, demographic factors, current trends, and analyses provided by independent third-parties. Periodically, management reviews its assumptions and estimates used to determine the adequacy of the Company’s reserves for uninsured risks and related liabilities.

Leases: The Company recognizes operating lease expense on a straight-line basis over the lease term. The Company's operating leases are more fully described in Note 9. The Company's capital leases are de minimis and are included as part of the Company's debt (see Note 8).

Recognition of Revenues and Expenses: Revenue in the Company's Consolidated Financial Statements is presented net of elimination of intercompany transactions. The following is a description of the Company's principal revenue generating activities by segment, and the Company's revenue recognition policy for each activity for the periods presented:

Ocean Transportation (in millions) (1)	Year Ended December 31,		
	2018	2017	2016
Ocean Transportation services	\$ 1,599.3	\$ 1,531.8	\$ 1,504.5
Terminal and other related services	23.0	23.5	22.9
Fuel sales	12.2	9.9	7.5
Vessel management and related services	6.8	6.6	6.2
Total	\$ 1,641.3	\$ 1,571.8	\$ 1,541.1

(1) Ocean Transportation revenue transactions are primarily denominated in U.S. dollars except for less than 3 percent of Ocean Transportation services revenue and fuel sales revenue categories which are denominated in foreign currencies.

Table of Contents

- § Ocean Transportation services revenue is recognized ratably over the duration of a voyage based on the relative transit time completed in each reporting period. Vessel operating costs and other ocean transportation operating costs, such as terminal operating overhead and general and administrative expenses, are charged to operating costs as incurred.
- § Terminal and other related services revenue is recognized as the services are performed.
- § Fuel sale revenue is recognized when the Company has completed delivery of the product to the customer in accordance with the terms and conditions of the contract.
- § Vessel management and related services revenue is recognized in proportion to the services completed.

Logistics (in millions) (1)	Year Ended December 31,		
	2018	2017	2016
Transportation Brokerage and Freight Forwarding services	\$ 549.1	\$ 445.1	\$ 373.7
Warehouse and distribution services	19.1	17.5	19.7
Supply chain management and other services	13.3	12.5	7.1
Total	\$ 581.5	\$ 475.1	\$ 400.5

- (1) Logistics revenue transactions are primarily denominated in U.S. dollars except for less than 3 percent of transportation brokerage and freight forwarding services revenue, and supply chain management and other services revenue categories which are denominated in foreign currencies.
- § Transportation Brokerage and Freight Forwarding services revenue consists of amounts billed to customers for services provided. The primary costs include third-party purchased transportation services, labor and equipment costs. Revenue and the related purchased third-party transportation costs are recognized over the duration of a delivery based upon the relative transit time completed in each reporting period. Labor and other operating costs are expensed as incurred. The Company reports revenue on a gross basis as the Company serves as the principal in these transactions because it is responsible for fulfilling the contractual arrangements with the customer and has latitude in establishing prices.
- § Warehousing and distribution services revenue consist of amounts billed to customers for storage, handling, and value-added packaging of customer merchandise. Storage revenue is recognized in the month the service is provided to the customer. Storage expenses are recognized as incurred. Other warehousing and distribution services revenue and expense are recognized in proportion to the services performed.
- § Supply chain management and other services revenue and related costs are recognized in proportion to the services performed.

The Company generally invoices its customers at the commencement of the voyage or the transportation service being provided, or as other services are being performed. Revenue is deferred when services are invoiced in advance to the customer. The Company's receivables are classified as short-term as collection terms are for periods of less than one year. The Company expenses sales commissions and contract acquisition costs as incurred because the amounts are generally immaterial. These expenses are included in selling, general and administration expenses in the Consolidated Statements of Income and Comprehensive Income.

**Customer Concentration:** The Ocean Transportation segment serves customers in numerous industries and carries a wide variety of cargo, mitigating its dependence upon any single customer or single type of cargo. In 2018, 2017 and 2016, the 10 largest Ocean Transportation customers accounted for approximately 24 percent, 23 percent and 24



percent of Ocean Transportation revenue, respectively. None of these customers individually account for more than 10 percent of Ocean Transportation operating revenues.

The Logistics segment serves customers in numerous industries and geographical locations. In 2018, 2017 and 2016, the 10 largest logistics customers accounted for approximately 23 percent, 19 percent and 22 percent of Logistics revenue, respectively. None of these customers individually account for more than 10 percent of Logistics operating revenues.

Dividends: The Company recognizes dividends as a liability when approved by the Board of Directors.

Share-Based Compensation: The Company records compensation expense for all share-based awards made to employees and directors. The Company's various stock-based compensation plans are more fully described in Note 15.

Income Taxes: The Company makes certain estimates and judgments in determining income tax expense for Consolidated Financial Statement purposes. These estimates and judgments are applied in the calculation of taxable

Table of Contents

income, tax credits, tax benefits and deductions, and in the calculation of certain deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue, costs and expenses for tax purposes. Deferred tax assets and liabilities are adjusted to the extent necessary to reflect tax rates expected to be in effect when the temporary differences reverse.

The Company records a valuation allowance if, based on the weight of available evidence, management believes that it is more likely than not that some portion or all of a recorded deferred tax asset would not be realized in future periods. Significant changes to these estimates may result in an increase or decrease to the Company's income taxes in a subsequent period. The Company's income taxes are more fully described in Note 10.

**Rounding:** Amounts in the Consolidated Financial Statements and Notes to the Consolidated Financial Statements are rounded to millions, except for per-share calculations and percentages which were determined based on amounts before rounding. Accordingly, a recalculation of some per-share amounts and percentages, if based on the reported data, may be slightly different.

**New Accounting Pronouncements:**

**Leases (Topic 842) ("ASU 2016-02"):** In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02 which requires lessees to record operating and finance leases on their balance sheet and disclose information related to such arrangements. ASU 2016-02 states that a lessee would recognize a lease liability for the lease payment obligation, and a right-of-use asset for the underlying leased asset for the period of the lease term. For an operating lease, the recognition of lease expense in the income statement is expected to be similar to current practice. The new standard is effective for interim and annual periods beginning on or after December 15, 2018. A modified retrospective transition approach is required.

The Company will adopt ASU 2016-02 effective January 1, 2019 and plans to make the following elections:

- Apply the transition requirements at the effective date of January 1, 2019, with the effects, if any, of initially applying ASU 2016-02 to be recognized as a cumulative-effect adjustment to retained earnings in the period of adoption;
- The package of practical expedient permitted under the transition guidance which allows the historical lease classification and initial direct costs to be carried forward;
- Elect the short-term lease exception which allows the Company to exclude leases with an initial term of one year or less from recognition;
- Elect to separate non-lease components; and
- Elect to use a portfolio approach in applying discount rates to leases based upon the lease terms in the following categories: (i) one to five years; (ii) six to ten years; (iii) eleven to fifteen years; and (iv) sixteen years and greater,

regardless of the type of asset.

The Company plans to use its estimated incremental borrowing rate based on information available at the date of adoption in calculating the present value of its existing lease payments. The incremental borrowing rate will be determined using the U.S. Treasury rate adjusted to account for the Company's credit rating and the collateralized nature of operating leases.

The Company estimates that upon adoption, it will initially record a right-of-use asset of approximately \$252.9 million, and a corresponding current and long-term lease liability of approximately \$54.2 million and \$206.4 million, respectively. The Company will also record a cumulative-effect adjustment of approximately \$5.9 million to increase beginning retained earnings at January 1, 2019, as a result of adopting ASU 2016-02. The Company does not believe that the adoption of ASU 2016-02 will have any significant impact on the Company's current earnings, liquidity or existing debt covenant requirements. The Company's finance leases and sub-lease income are nominal to the Company's Consolidated Financial Statements.

Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"): In June 2016, the FASB issued ASU 2016 13 which amends the current approach to estimate credit losses on certain financial assets, including trade and other receivables, available-for-sale securities and other financial instruments. ASU 2016 13 requires entities to establish a valuation allowance for the expected lifetime losses of certain financial instruments. Subsequent changes in

51

---

Table of Contents

the valuation allowance are recorded in current earnings and reversal of previous losses is permitted. The new standard is effective for interim and annual periods beginning on or after December 15, 2019, and early adoption is permitted. The Company is in the process of evaluating this new standard, but does not expect the adoption of ASU 2016-13 to have a significant impact on the Company's Consolidated Financial Statements.

Revenues from Contracts with Customers (Topic 606) ("ASU 2014-09"): The Company adopted ASU 2014-09 during the three months ended March 31, 2018 using the modified retrospective method. Prior to adopting ASU 2014-09, the Company performed a review of its revenue contracts and evaluated the Company's current accounting policies and procedures for recognizing revenues in the Company's Consolidated Financial Statements, and compared these to the new requirements of ASU 2014-09. In addition, the Company identified the performance obligations and consideration applicable under each contract.

Based upon this evaluation, the Company determined that the impact of adopting ASU 2014-09 was de minimis because the analysis of the Company's contracts under ASU 2014-09 supports the recognition of revenue over time as the service is performed, which is consistent with the Company's current revenue recognition accounting policy. The majority of the Company's contracts require the Company to provide ocean and logistics transportation services to its customers. Such services are provided by the Company over a period of time, generally, when cargo is being delivered from source to destination point, or as the service is being performed. These performance obligations are completed in a short period of time due to the nature of the services provided by the Company. Under the new standard, revenues from the majority of the Company's contracts will continue to be recognized over time as the customer simultaneously receives and consumes the benefit of these services as described in ASU 2014-09.

Income Statement – Reporting Comprehensive Income (Topic 220) ("ASU 2018-02"): ASU 2018-02 allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for the remeasurement tax effects resulting from the Tax Act. The Company elected to early adopt ASU 2018-02 during the three months ended March 31, 2018, and recorded a reclassification adjustment of \$6.0 million between accumulated other comprehensive income (loss) and retained earnings (see Note 13).

Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Benefit Cost ("ASU 2017-07"): 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 adopted ASU 2017-07 during the three months ended March 31, 2018. To conform prior year amounts to current period presentation as required by ASU 2017-07, the Company recorded retrospective adjustments and reclassified \$2.1 million of income and \$2.1 million of expense from costs and expenses, to other income (expense), net in the Consolidated Statement of Income and Comprehensive Income for the years ended December 31, 2017 and

2016, respectively. There was no change to income before income taxes for all years presented as a result of adopting ASU 2017-07.

Simplifying the Test for Goodwill Impairment (“ASU 2017-04”): ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. The Company early adopted ASU 2017-04 during the three months ended December 31, 2018. The adoption of this ASU had no impact on the Company’s Consolidated Financial Statements.

### 3.REPORTABLE SEGMENTS

Reportable segments are components of an enterprise that engage in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company’s chief operating decision maker is its Chief Executive Officer.

The Company consists of two reportable segments, Ocean Transportation and Logistics, which are further described in Note 1. Reportable segments are measured based on operating income. In arrangements where the customer purchases

Table of Contents

ocean transportation and logistics services, the revenues are allocated to each reportable segment based upon the contractual amounts for each type of service. The Company's Terminal Joint Venture segment has been aggregated into the Company's Ocean Transportation segment due to the operations of the Terminal Joint Venture being an integral part of the Company's Ocean Transportation business (see Note 4). Included in the reportable segment information below are 52 weeks in the 2018 and 2017 fiscal years, and 53 weeks in the 2016 fiscal year.

The Company's Ocean Transportation segment provides ocean transportation services to the Logistics segment, and the Logistics segment provides logistics services to the Ocean Transportation segment. Accordingly, inter-segment revenue of \$95.4 million, \$81.3 million and \$62.0 million for the years ended December 31, 2018, 2017 and 2016, respectively, have been eliminated from Logistics' operating revenues due to the nature of how those services were performed.

Reportable segment financial information for the years ended December 31, 2018, 2017 and 2016, and identifiable asset segment information at December 31, 2018 and 2017, are as follows:

(In millions)	Years Ended December 31,		
	2018	2017	2016
Operating Revenue:			
Ocean Transportation	\$ 1,641.3	\$ 1,571.8	\$ 1,541.1
Logistics	581.5	475.1	400.5
Total Operating Revenue	\$ 2,222.8	\$ 2,046.9	\$ 1,941.6
Operating Income:			
Ocean Transportation (1)	\$ 131.1	\$ 126.4	\$ 144.5
Logistics (2)	32.7	20.9	12.2
Total Operating Income	163.8	147.3	156.7
Interest expense, net	(18.7)	(24.2)	(24.1)
Other income (expense), net	2.6	2.1	(2.1)
Income before Income Taxes	147.7	125.2	130.5
Income taxes (3)	(38.7)	105.8	(49.1)
Net Income (3)	\$ 109.0	\$ 231.0	\$ 81.4
Capital Expenditures:			
Ocean Transportation	\$ 385.4	\$ 305.3	\$ 179.1
Logistics	15.8	1.7	0.3
Total Capital Expenditures	\$ 401.2	\$ 307.0	\$ 179.4
Depreciation and Amortization:			
Ocean Transportation	\$ 87.0	\$ 93.3	\$ 92.6
Logistics	7.4	7.9	4.5
	94.4	101.2	97.1
Deferred dry-docking amortization - Ocean Transportation	37.4	46.2	38.9
Total Depreciation and Amortization	\$ 131.8	\$ 147.4	\$ 136.0

- 
- (1) Ocean Transportation segment information includes \$36.8 million, \$28.2 million, and \$15.8 million of equity in income from the Company's equity investment in SSAT for the years ended December 31, 2018, 2017, and 2016, respectively.
- (2) Logistics segment information includes the operations of Span Alaska acquired as of August 4, 2016.
- (3) Income taxes and net income were adjusted for an immaterial correction of an error for the year ended December 31, 2017 (see Note 2).

(In millions)	As of December 31,	
	2018	2017
Identifiable Assets:		
Ocean Transportation (1) (2)	\$ 2,071.6	\$ 1,941.5
Logistics	358.8	310.1
Total Assets (2)	\$ 2,430.4	\$ 2,251.6

---

- (1) The Ocean Transportation segment includes \$87.0 million and \$93.2 million related to the Company's equity investment in SSAT as of December 31, 2018 and 2017, respectively.
- (2) Amounts as of December 31, 2017 have been adjusted for an immaterial correction of an error (see Note 2).

Table of Contents

## 4. INVESTMENT IN TERMINAL JOINT VENTURE

The Company accounts for its 35 percent ownership interest in the Terminal Joint Venture using the equity method of accounting. The Company records its share of income from the Terminal Joint Venture in costs and expenses within the Ocean Transportation segment due to operations of the Terminal Joint Venture being an integral part of the Company's Ocean Transportation business. The Company's investment in the Terminal Joint Venture was \$87.0 million and \$93.2 million at December 31, 2018 and 2017, respectively.

The Company's share of income recorded in the Consolidated Statements of Income and Comprehensive Income and dividends received by the Company during the years ended December 31, 2018, 2017 and 2016 are as follows:

(In millions)	Years Ended December 31,		
	2018	2017	2016
Company's share of net income	\$ 36.8	\$ 28.2	\$ 15.8
Distributions received	\$ 42.0	\$ 17.5	\$ —

The Company's Ocean Transportation segment operating costs include \$213.4 million, \$181.3 million and \$177.8 million for the years ended December 31, 2018, 2017 and 2016, respectively, for terminal services provided by SSAT. Accounts payable and accrued liabilities in the Consolidated Balance Sheets include \$59.2 million and \$22.8 million for terminal services payable to SSAT at December 31, 2018 and 2017, respectively.

A summary of the condensed balance sheets of SSAT at December 31, 2018 and 2017 is as follows:

Condensed Balance Sheets (in millions)	As of December 31,	
	2018	2017
Current assets	\$ 310.4	\$ 181.0
Non-current assets	152.1	161.8
Total Assets	\$ 462.5	\$ 342.8
Current liabilities	\$ 71.0	\$ 65.3
Non-current liabilities	156.2	23.8
Equity	235.3	253.7
Total Liabilities and Equity	\$ 462.5	\$ 342.8

A summary of the condensed statements of operating income and net income of SSAT for years ended December 31, 2018, 2017 and 2016 are as follows:



Condensed Statements of Operating Income and Net Income (in millions)	Years Ended December 31,		
	2018	2017	2016
Operating revenue	\$ 1,074.2	\$ 933.5	\$ 740.9
Operating costs and expenses	963.7	850.2	706.5
Operating income	110.5	83.3	34.4
Net Income (1)	\$ 104.9	\$ 80.9	\$ 45.1

(1)Includes earnings from equity method investments held by SSAT less earnings allocated to non-controlling interests.

## 5.PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 and 2017, and depreciation expense for the years ended December 31, 2018, 2017 and 2016 is as following:

(In millions)	As of December 31, 2018			As of December 31, 2017		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Vessels	\$ 1,489.2	847.1	\$ 642.1	\$ 1,433.6	\$ 893.2	\$ 540.4
Containers and equipment	513.6	362.9	150.7	543.0	349.0	194.0
Terminal facilities and other property	66.0	38.6	27.4	64.8	36.3	28.5
Vessel construction in progress	487.2	—	487.2	376.6	—	376.6
Other construction in progress	59.2	—	59.2	26.2	—	26.2
Total	\$ 2,615.2	\$ 1,248.6	\$ 1,366.6	\$ 2,444.2	\$ 1,278.5	\$ 1,165.7

Table of Contents

(In millions)	Years Ended December 31,		
	2018	2017	2016
Depreciation expense	\$ 80.5	\$ 86.7	\$ 86.0

Vessel construction in progress represents progress payments for the construction of four new vessels, and other related costs. During the year ended December 31, 2018, the construction of the first vessel was completed and the vessel was placed into service resulting in approximately \$233.0 million, including \$12.8 million of capitalized interest, transferred from Vessel construction in progress category to Vessels category within Property and Equipment. As of December 31, 2018 and 2017, vessel construction in progress costs included capitalized interest of \$16.3 million and \$10.4 million, respectively.

Property and equipment includes assets subject to capital leases with a net book value of \$0.1 million and \$4.9 million, net of accumulated depreciation of \$0.7 million and \$3.8 million at December 31, 2018 and 2017, respectively. Depreciation of assets subject to capital leases recorded in the Consolidated Statement of Income and Comprehensive Income was \$0.5 million, \$1.5 million and \$1.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

## 6.GOODWILL AND INTANGIBLE ASSETS

Goodwill by segment as of December 31, 2018 and 2017 consist of the following:

(In millions)	Ocean	Logistics	Total
	Transportation		
Goodwill	\$ 222.6	\$ 105.2	\$ 327.8

Intangible assets by segment as of December 31, 2018 and 2017 consist of the following:

(In millions)	As of December 31, 2018			As of December 31, 2017		
	Gross	Accumulated	Net Book Value	Gross	Accumulated	Net Book Value
	Amount	Amortization		Amount	Amortization	

Edgar Filing: Matson, Inc. - Form 10-K

Ocean Transportation -						
Customer relationships	\$ 140.6	\$ 24.4	\$ 116.2	\$ 140.6	\$ 17.8	\$ 122.8
Logistics:						
Customer relationships	90.1	19.6	70.5	90.1	15.0	75.1
Trade name	27.3	—	27.3	27.3	—	27.3
Total Logistics	117.4	19.6	97.8	117.4	15.0	102.4
Total	\$ 258.0	\$ 44.0	\$ 214.0	\$ 258.0	\$ 32.8	\$ 225.2

Ocean Transportation intangible assets of \$140.6 million relates to customer relationships acquired as part of the acquisition of Horizon Lines, Inc. (“Horizon”) on May 29, 2015, and is being amortized over 21 years. Logistics intangible assets include \$79.3 million of customer relationships which are being amortized over 20 years, and \$27.3 million of an indefinite life trade name, acquired as part of the Span Alaska Acquisition (see Note 18). The remaining Logistics customer relationships of \$10.8 million are being amortized over a period of up to 13 years.

Intangible assets related amortization expense for 2018, 2017, and 2016, is as follows:

(In millions)	Years Ended December 31,		
	2018	2017	2016
Amortization expense	\$ 11.2	\$ 11.4	\$ 9.1

Table of Contents

As of December 31, 2018, estimated amortization expense related to customer relationships intangible assets during the next five years and thereafter are as follows:

Year (in millions)	Customer Relationships
2019	\$ 11.0
2020	11.0
2021	10.9
2022	10.7
2023	10.7
Thereafter	132.4
Total	\$ 186.7

## 7.CAPITAL CONSTRUCTION FUND

The Company is party to an agreement with the U.S. Department of Transportation, Maritime Administration (“MARAD”) that established a Capital Construction Fund (“CCF”) program under provisions of the Merchant Marine Act of 1936, as amended (the “Merchant Marine Act”). The CCF program was created to assist owners and operators of U.S. flag vessels in raising capital necessary for the modernization and expansion of the U.S. merchant marine fleet. CCF funds may be used for the acquisition, construction, or reconstruction of vessels, and for repayment of existing vessel indebtedness through the deferment of federal income taxes on certain deposits of monies and other property placed into the CCF. Qualified withdrawals from the CCF must be used for investment in vessels built in the U.S. and used between covered U.S. ports as described by the Merchant Marine Act, and for other qualifying expenditures (see Item 1 of Part 1 for additional information on Maritime Laws and the Jones Act). Participants of the CCF must also meet certain U.S. citizenship requirements.

Deposits into the CCF are limited by certain applicable earnings and other conditions. Such deposits, once made, are available as tax deductions in the Company’s income tax provision. Qualified withdrawals from the CCF do not give rise to a current income tax liability, but reduce the depreciable basis of the vessels or certain related equipment for income tax purposes. However, if withdrawals are made from the CCF for general corporate purposes or other non-qualified purposes, or upon termination of the agreement, they are taxable with interest payable from the year of deposit.

Deposits not committed for qualified purposes within 25 years from the date of deposit will be treated as non-qualified withdrawals over the subsequent five years. Under the terms of the CCF agreement, the Company may designate

certain qualified earnings as “accrued deposits” or may designate, as obligations of the CCF, qualified withdrawals to reimburse qualified expenditures initially made with operating funds. Such accrued deposits to, and withdrawals from, the CCF are reflected in the Consolidated Balance Sheets either as obligations of the Company’s current assets or as receivables from the CCF.

As of December 31, 2018 and 2017, \$1.0 million and \$134.8 million, respectively, of eligible accounts receivable were assigned to the CCF. Due to the nature of the assignment of eligible accounts receivable into the CCF, such assigned amounts are classified as part of accounts receivable in the Consolidated Balance Sheets. At December 31, 2017, the Company had \$0.9 million on deposit in the CCF invested in a money market fund which is classified as other long-term assets in the Company’s Consolidated Balance Sheets. The amount on deposit in the CCF at December 31, 2018 was nominal.

Table of Contents

## 8.DEBT

At December 31, 2018 and 2017, the Company's debt consisted of the following:

(In millions)	As of December 31,	
	2018	2017
Private Placement Term Loans:		
5.79 %, payable through 2020	\$ 10.5	\$ 17.5
3.66 %, payable through 2023	41.0	50.1
4.16 %, payable through 2027	44.5	49.8
3.37 %, payable through 2027	75.0	75.0
3.14 %, payable through 2031	200.0	200.0
4.31 %, payable through 2032	32.7	35.1
4.35 %, payable through 2044	100.0	100.0
3.92 %, payable through 2045	71.4	73.2
Title XI Bonds:		
5.34 %, payable through 2028	22.0	24.2
5.27 %, payable through 2029	24.2	26.4
Revolving credit facility, maturity date of June 29, 2022	235.0	205.0
Capital leases	0.1	0.8
Total Debt	856.4	857.1
Less: Current portion	(42.1)	(30.8)
Total Long-term Debt	\$ 814.3	\$ 826.3

The following is a description of the Company's debt:

Private Placement Term Loans: The 5.79 percent notes payable through 2020 are amortized by semi-annual principal payments of \$3.5 million plus interest.

During the second quarter of 2012, the Company issued \$170.0 million of unsecured notes, which funded in three tranches, \$77.5 million at an interest rate of 3.66 percent, \$55.0 million at an interest rate of 4.16 percent, and \$37.5 million at an interest rate of 4.31 percent (the "2012 Notes"). Interest is payable semi-annually. The 2012 Notes began to amortize in 2015 with aggregate semi-annual payments of \$4.6 million which continued through 2016, followed by \$8.4 million in 2017 through mid-year 2023, \$3.8 million through mid-year 2027, and \$1.2 million thereafter.

In January 2014, the Company issued \$100.0 million of 30-year senior unsecured notes at an interest rate of 4.35 percent, payable semi-annually (the "2014 Notes"). The 2014 Notes will begin to amortize in 2021, with annual principal payments of \$5.0 million in 2021, \$7.5 million in 2022 and 2023, \$10.0 million from 2024 to 2027, and \$8.0 million in 2028. Starting in 2029, and in each year thereafter until 2044, annual principal payments will be \$2.0

million.

In July 2015, the Company issued \$75.0 million of 30-year senior unsecured notes at an interest rate of 3.92 percent, payable semi-annually (the "2015 Notes"). The 2015 Notes began to amortize in 2017, with annual principal payments of approximately \$1.8 million through 2019. During the years 2020 to 2026, the annual principal payments will range between approximately \$1.3 million and \$8.0 million. Starting in 2027, and in each year thereafter, the annual principal payments will be approximately \$1.5 million.

In September 2016, the Company issued \$200.0 million of 15-year senior unsecured notes (the "Series D Notes") at an interest rate of 3.14 percent, payable semi-annually. The Series D Notes will begin to amortize in 2019, with semi-annual principal payments of \$6.0 million in 2019, and \$9.2 million during the years 2020 to 2023. Starting in 2024, and in each year thereafter through maturity in 2031, the semi-annual principal payments will be \$7.15 million.

In December 2016, the Company issued \$75 million of 11-year senior unsecured notes at an interest rate of 3.37 percent, payable semi-annual (the "Series A Notes"). The Series A Notes will begin to amortize in 2021, with principal payments of \$5.8 million in 2021 and \$11.5 million per year, paid semi-annually, from 2022 through 2027.

Title XI Bonds: In September 2003, the Company issued \$55.0 million in U.S. Government guaranteed vessel finance bonds (Title XI) to partially finance the delivery of MV Manukai. The secured bonds have a final maturity in

57

---

Table of Contents

September 2028 with a coupon of 5.34 percent. The bonds are amortized by semi-annual payments of \$1.1 million plus interest. In August 2004, the Company issued \$55.0 million of U.S. Government guaranteed vessel finance bonds (Title XI) to partially finance the delivery of MV Maunawili. The secured bonds have a final maturity in July 2029 with a coupon of 5.27 percent. The bonds are amortized by semi-annual payments of \$1.1 million plus interest.

**Revolving Credit Facility:** On June 29, 2017 (the “Closing Date”), the Company entered into an amended and restated credit agreement that provides the Company with additional sources of liquidity for working capital, capital expenditures and investment opportunities, and amends and restates the Company’s previously amended and restated credit agreement (the “Credit Agreement” or the “revolving credit facility”). The Credit Agreement expires on June 29, 2022, and provides for committed aggregate borrowing of up to \$650 million, with an uncommitted option to increase the aggregate borrowing by up to \$250 million. The aggregate borrowing within the Credit Agreement includes a \$100 million sublimit for the issuance of standby and commercial letters of credit, and a \$50 million sublimit for swing line loans. The Company may prepay any amounts outstanding under the Credit Agreement without premium or penalty. All obligations of the Company under the Credit Agreement are guaranteed by Matson’s principal operating subsidiary MatNav and by certain other subsidiaries.

Depending on the Company’s consolidated net leverage ratio, borrowings under the Credit Agreement bear interest at either LIBOR plus a margin of between 1.00 percent and 1.75 percent or the base rate plus a margin of between zero percent and 0.75 percent. Letters of credit are subject to fees based on the Company’s consolidated net leverage ratio at a rate of between 1.00 percent and 1.75 percent. The Company also pays a commitment fee of between 0.15 percent and 0.30 percent depending on the Company’s consolidated net leverage ratio.

As of December 31, 2018, the Company had \$304.0 million of remaining availability under the Credit Agreement. The Company used \$7.9 million of the sub-limit for letters of credit outstanding as of December 31, 2018. Based upon the Company’s consolidated net leverage ratio, the interest rate applicable to revolving credit facility borrowings was approximately 3.92 percent at December 31, 2018.

**Amendments to Existing Private Placement Term Loan Facilities and New Shelf Facilities (“Private Loan Facilities”):** On June 29, 2017, the Company and the holders of the Company’s term loans entered into amendments (collectively, the “2017 Amendments”) to each of the term loan agreements and amendments thereto, previously issued prior to the Closing Date. The 2017 Amendments provide for amendments to certain covenants and other terms, including (at the Company’s option under certain circumstances) adjustments to the required consolidated leverage ratio, and, in connection with the exercise of such option, the payment of additional interest for certain pre-defined periods. Interest rates and other substantive terms remained unchanged.

**Debt Covenants:** The Credit Agreement and Private Loan Facilities (collectively, the “Agreements”) contain affirmative, negative and financial covenants customary for financings of this type, including, among other things, limitations on certain other indebtedness, loans and investments, liens, mergers, asset sales, and transactions with



affiliates as defined within the Agreements. The Agreements also contain customary events of default. A brief description of the principal covenants contained in the Agreements includes, but is not limited to the following (as defined within the Agreements):

- § Minimum Consolidated Interest Coverage Ratio as of the end of any fiscal quarter is not permitted to be less than 3.50 to 1.0;
- § Maximum Consolidated Leverage Ratio as of the end of any fiscal quarter is not permitted to exceed 3.25 to 1.0, subject to the Company's election of specific exceptions in which the Maximum Consolidated Leverage Ratio is not permitted to exceed 3.75 to 1.0 for certain pre-defined periods as described in the Agreements;
- § The principal amount of Priority Debt: (i) is not permitted to exceed 20 percent of Consolidated Tangible Assets at any time (subject to a reduction to 17.5 percent upon the earlier of December 31, 2017, or upon the occurrence of certain events), and; (ii) the principal amount of Priority Debt that is not Title XI Priority Debt at any time is not permitted to exceed 10 percent of Consolidated Tangible Assets.

Principal covenants generally will restrict the incurrence of liens except for permitted liens, which include, without limitation, liens securing Title XI Debt up to certain thresholds, as defined within the agreements. The Company was in compliance with these covenants as of December 31, 2018.

Table of Contents

Capital Leases: The Company's capital lease obligations represent leasing of containers and other equipment, and have been classified as current and long-term debt in the Company's Consolidated Balance Sheets.

Debt Guarantees: All of the Company's debt as of December 31, 2018 was unsecured, except for \$46.2 million in Title XI bonds, all of which are guaranteed by the Company's significant subsidiaries. All of the Company's debt is fixed rate debt except for borrowings under the revolving credit facility.

Debt Maturities: At December 31, 2018, debt maturities during the next five years and thereafter are as follows:

Year (in millions)	Total
2019	\$ 42.1
2020	48.4
2021	54.2
2022	294.9
2023	59.9
Thereafter	356.9
Total debt	\$ 856.4

## 9.LEASES

The Company has a variety of different types of operating leases, the specific terms and conditions of which vary from lease to lease. Certain operating lease agreements include terms such as (i) renewal and early termination options; (ii) early buy-out and purchase options; and (iii) rent escalation clauses. The lease agreements also include provisions for the maintenance of the leased asset and payment of lease related costs. The Company reviews the specific terms and conditions of each lease and, as appropriate, notifies the lessor of any intent to exercise any option in accordance with the terms of the lease. In the normal course of business, the Company expects to be able to renew or replace most of its operating leases by other similar leases as they expire. Except for the vessel lease guaranty described below, the Company's leases do not contain any residual value guarantees. The lease type and estimated maximum terms of the Company's operating leases are as following:

Lease Type:	Life
Real estate and terminal leases	65 years

Edgar Filing: Matson, Inc. - Form 10-K

Vessel charter leases	10 years
Operations equipment and other leases	8 years

Rent expense recorded in costs and expenses in the Consolidated Statements of Income and Comprehensive Income from operating leases and other non-lease agreements are as follows:

(In millions)	Years Ended December 31,		
	2018	2017	2016
Real estate and terminal leases	\$ 25.6	\$ 26.4	\$ 25.4
Vessel charter leases	21.4	21.4	16.4
Operations equipment and other leases	26.8	26.0	27.9
Other rent expense	68.1	54.9	49.9
Total	\$ 141.9	\$ 128.7	\$ 119.6

Future minimum payments under operating lease agreements at December 31, 2018 are as follows:

Year (in millions)	Total
2019	\$ 68.3
2020	59.2
2021	44.8
2022	34.7
2023	30.5
Thereafter	83.6
Total minimum lease payments	\$ 321.1

Table of Contents

Vessel Charter and Buyer-Lessor Guaranty

Vessel Charter: On November 26, 2018, a wholly-owned subsidiary of the Company entered into agreements whereby a vessel, MV Maunalei, owned by the subsidiary, was sold for \$106.0 million and subsequently leased back from the buyer-lessor under a Bareboat Charter Agreement (the “Charter”). The transaction qualified for sale and leaseback treatment under ASC 840, Leases, with the Charter treated as an operating lease for accounting purposes. Lease payments are approximately \$3.0 million per quarter, and the base term of the Charter is five years with a two year end-of-term renewal option. Total future minimum lease payments were \$59.9 million at December 31, 2018, and are included in the future minimum payments table above. The Company recorded a net deferred gain of \$2.3 million related to this sale and leaseback during the year ended December 31, 2018, and is included in other long-term liabilities in the Consolidated Balance Sheet.

Prior to the expiration of the base term of the Charter, the subsidiary may, at its option, elect to: (i) purchase the vessel at the option price; (ii) exercise the option to renew the Charter for an additional two years; or (iii) remarket the vessel to sell to a third-party on behalf of the buyer-lessor. The purchase option price is \$68.9 million after the base term and \$58.3 million after the extended term. The Charter also includes a maximum residual value guarantee amount of \$50.9 million after five years, or \$47.7 million after the extended term. Proceeds from the sale of the vessel reduces the subsidiary’s residual value guarantee.

Buyer-Lessor Guaranty: Matson, Inc. provided the buyer-lessor with a guaranty of all obligations of the wholly-owned subsidiary related to the Charter as defined in the guaranty agreement.

10.INCOME TAXES

Income Taxes: On December 22, 2017, the Tax Act was signed into law and included numerous changes in existing tax law, including a reduction in the federal corporate income tax rate from 35 percent to 21 percent. The rate reduction and other changes took effect on January 1, 2018. Other changes such as remeasurement of deferred tax assets and liabilities were effective as of the fourth quarter of 2017. Also, on December 22, 2017, the Securities Exchange Commission (“SEC”) staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. As of December 31, 2018, the Company has completed its assessment of the impact of the Tax Act.

In connection with the Company’s analysis of the impact of the Tax Act, the Company recorded a net tax benefit of \$154.0 million related to the remeasurement and other discrete adjustments to the Company’s deferred tax assets and

liabilities during the year ended December 31, 2017. In addition, the Company recorded a non-cash tax adjustment of \$2.9 million that increased current income taxes during the year ended December 31, 2018. This adjustment related to the application of an estimated 6.2 percent sequestration on alternative minimum tax (AMT) refunds for the years 2018 to 2021. On January 19, 2019, the Internal Revenue Service issued new guidance indicating that sequestration would not apply to refundable AMT credits. In accordance with this new guidance, the Company will record a non-cash adjustment of \$2.9 million that will reduce current income taxes during the three months ending March 31, 2019.

Income taxes for the years ended December 31, 2018, 2017 and 2016 consisted of the following:

(In millions)	Years Ended December 31,		
	2018	2017	2016
Current:			
Federal	\$ 2.4	\$ 21.6	\$ 10.5
State	2.1	2.2	(1.3)
Discrete adjustments related to the Tax Act (1)	2.9	—	—
Total	7.4	23.8	9.2
Deferred:			
Deferred tax expense	31.3	24.4	39.9
Remeasurement and discrete adjustments related to the Tax Act (2)	—	(154.0)	—
Total	31.3	(129.6)	39.9
Total income taxes	\$ 38.7	\$ (105.8)	\$ 49.1

Table of Contents

- (1) Current income taxes for the year ended December 31, 2018 includes a non-cash income tax expense of \$2.9 million, which relates to discrete adjustments as a result of applying the provisions of the Tax Act.
- (2) Deferred income taxes for the year ended December 31, 2017 includes a non-cash income tax benefit of \$154.0 million, which relates to the remeasurement of the Company's deferred tax assets and liabilities and other discrete adjustments as a result of applying the provisions of the Tax Act.

Income taxes for the years ended December 31, 2018, 2017, and 2016, differs from amounts computed by applying the statutory federal rate to income before income taxes for the following reasons:

	Years Ended December 31,					
	2018		2017		2016	
Computed federal income tax expense	21.0	%	35.0	%	35.0	%
State income tax	3.4	%	2.6	%	1.8	%
Valuation allowance	(0.7)	%	1.4	%	0.3	%
Foreign taxes	0.6	%	0.1	%	0.4	%
Remeasurement and discrete adjustments related to the Tax Act (1)	2.0	%	(123.0)	%	—	%
Share-based payments	0.1	%	(1.4)	%	—	%
Other — net	(0.2)	%	0.8	%	0.1	%
Effective income tax rate	26.2	%	(84.5)	%	37.6	%

- (1) Effective income tax rate for the year ended December 31, 2018 and 2017 includes the impact of a non-cash income tax expense of \$2.9 million, or 2.0 percent, and a non-cash income tax benefit of \$154.0 million, or (123.0 percent), respectively, related to the remeasurement of the Company's deferred assets and liabilities and other discrete adjustments as a result of applying the provisions of the Tax Act.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2018 and 2017, were as follows:

(In millions)	As of December 31,	
	2018	2017
Deferred tax assets:		
Benefit plans	\$ 45.6	\$ 44.2
Federal net operating losses	15.2	21.6
Insurance reserves	5.6	6.8
State net operating losses	7.4	7.4
Foreign losses	5.1	6.6
U.S. State alternative minimum tax credits	5.9	4.2
Allowance for doubtful accounts	1.1	0.9
Other	1.8	1.9
Total deferred tax assets	87.7	93.6
Valuation allowance	(11.5)	(13.0)
Total deferred tax assets, net of valuation allowance	76.2	80.6
Deferred tax liabilities:		
Basis differences for property and equipment	302.1	254.4

Edgar Filing: Matson, Inc. - Form 10-K

Lease financing	26.0	—
Capital Construction Fund	7.0	54.2
Intangibles	38.4	36.4
Deferred revenue	3.0	6.9
Terminal Joint Venture investment	11.4	9.6
Reserves	1.0	2.7
Total deferred tax liabilities	388.9	364.2
Deferred tax liability, net	\$ 312.7	\$ 283.6

The Company's income taxes payable has been reduced by the tax benefits from share-based compensation. The Company receives an income tax benefit for exercised stock options calculated as the difference between the fair market value of the stock issued at the time of exercise and the option exercise price, tax-effected. The Company also receives an income tax benefit for non-vested stock when it vests, measured at the fair market value of the stock at the time of vesting, tax-effected. The net tax benefits from share-based transactions were \$2.2 million for 2016, and the portion of the tax benefit related to the excess of the amount reported as the tax deduction over expense was reflected as an increase to additional paid-in-capital in the 2016 Consolidated Statements of Shareholders' Equity.

Table of Contents

Valuation Allowance: Valuation allowances recorded against the Company's foreign income tax net operating losses ("NOLs") and a portion of the state income tax NOLs were \$11.5 million and \$13.0 million as of December 31, 2018 and 2017, respectively. The Company believes that it is more likely than not that the benefit from these amounts will not be realized. The Company recorded adjustments to its valuation allowance of (\$1.1) million, \$1.7 million and \$0.4 million during the years ended December 31, 2018, 2017 and 2016, respectively.

Net Operating Losses and Tax Credit Carryforwards: The Company's NOLs and tax credit carryforwards at December 31, 2018 and 2017, were as follows:

(In millions)	Expiration Date	2018	2017
U.S. Federal income tax NOLs	Various dates beginning in 2027	\$ 74.5	\$ 183.8
U.S. State income tax NOLs	Various dates beginning in 2032	\$ 189.2	\$ 192.3
Foreign income tax NOLs	No expiration date	\$ 18.4	\$ 23.7
U.S. State alternative minimum tax credit	No expiration date	\$ 5.9	\$ 4.2

The U.S. federal and state income tax NOLs in the Company's filed income tax returns include unrecognized tax benefits. The deferred tax assets recognized for those NOLs are presented net of these unrecognized tax benefits. As a result of changes in tax legislation, the use of a portion of the Company's domestic NOL and tax credit carryforwards may be limited in future periods. Further, a portion of the federal and state income tax NOLs and tax credit carryforwards may expire before being applied to reduce future income tax liabilities.

Unrecognized Tax Benefits: Total unrecognized benefits represent the amount that, if recognized, would favorably affect the Company's incomes taxes and effective tax rate in future periods. The Company does not expect a material change in gross unrecognized benefits in the next twelve months. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

Unrecognized Tax Benefits (in millions)	Amount
Balance at December 31, 2015	\$ 22.1
Changes in tax positions of prior years, net	(1.1)
Reductions for lapse of statute of limitations	(0.6)
Balance at December 31, 2016	20.4
Changes in tax positions of prior years, net	1.1
Reductions for lapse of statute of limitations	(0.1)
Revaluation of unrecognized tax benefits due to the Tax Act (1)	(5.5)
Balance at December 31, 2017	15.9
Changes in tax positions of prior years, net	(0.3)



Edgar Filing: Matson, Inc. - Form 10-K

Reductions for lapse of statute of limitations	(0.5)
Balance at December 31, 2018	\$ 15.1

---

(1) Amount relates to the impact of applying the Tax Act during the year ended December 31, 2017.

Included in the balance of unrecognized tax benefits at December 31, 2018 are potential benefits of \$13.7 million that, if recognized, would affect the Company's income taxes and effective tax rate. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits in income taxes. To the extent interest and penalties are not ultimately assessed with respect to the settlement of uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the Company's income taxes. Interest accrued related to the balance of unrecognized tax benefits totaled \$0.4 million and \$0.5 million as of December 31, 2018 and 2017, respectively.

The Company is no longer subject to U.S. federal income tax audits for years before 2014. The Company is routinely involved in state, local income and excise tax audits, and foreign tax audits.

Table of Contents

## 11.PENSION AND POST-RETIREMENT PLANS

## Non-bargaining Plans:

The Company has two funded qualified single-employer defined benefit pension plans that cover certain non bargaining unit employees and bargaining unit employees. In addition, the Company has plans that provide certain retiree health care and life insurance benefits to substantially all salaried, non-bargaining employees hired before 2008 and to certain bargaining unit employees. Employees are generally eligible for such benefits upon retirement and completion of a specified number of years of service. The Company does not pre-fund these health care and life insurance benefits, and has the right to modify or terminate certain of these plans in the future. Most non-bargaining retirees pay a portion of the benefit costs.

Plan Administration, Investments and Asset Allocations: The Company has a Benefits Investment Committee that meets regularly with investment advisors to establish investment policies, direct investments and select investment options for the qualified plans. The Benefits Investment Committee is also responsible for appointing investment managers and monitoring their performance. The Company's investment policy permits investments in marketable equity securities, such as domestic and foreign stocks, domestic and foreign bonds, venture capital, real estate investments, and cash equivalents. The Company's investment policy does not permit direct investment in certain types of assets, such as options or commodities, or the use of certain strategies, such as short selling or the purchase of securities on margin.

The Company's investment strategy for its qualified pension plan assets is to achieve a diversified mix of investments that provides for long-term growth at an acceptable level of risk, and to provide sufficient liquidity to fund ongoing benefit payments. The Company has engaged a number of investment managers to implement various investment strategies to achieve the desired asset class mix, liquidity and risk diversification objectives.

The Company's target and actual asset allocations at December 31, 2018 and 2017 were as follows:

Asset Categories	Target		2018		2017	
Domestic equity securities	53	%	57	%	59	%
International equity securities	15	%	16	%	17	%
Debt securities	22	%	19	%	17	%
Real estate	5	%	7	%	6	%
Other and cash	5	%	1	%	1	%
Total	100	%	100	%	100	%

The Company's investments in equity securities primarily include domestic large-cap and mid-cap companies, but also includes an allocation to small-cap and international equity securities. Equity investments do not include any direct holdings of the Company's stock but may include such holdings to the extent that the stock is included as part of certain mutual fund holdings. Debt securities include investment-grade and high-yield corporate bonds from diversified industries, mortgage-backed securities, and U.S. Treasuries. Other types of investments include funds that invest in commercial real estate assets, and to a lesser extent, private equity investments in technology companies. All assets within specific funds are allocated to the target asset allocation of the fund.

The expected return on plan assets is principally based on the Company's historical returns combined with the Company's long-term future expectations regarding asset class returns, the mix of plan assets, and inflation assumptions. Actual return on plan assets for the periods presented are as follows:

Actual Return on Plan Assets	Returns
One-year return	(6.5) %
Three-year return	5.1 %
Five-year return	3.8 %
Long-term average return (since plan inception in 1989)	7.9 %

The Company's pension plan assets are held in a master trust and are stated at estimated fair values of the underlying investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Table of Contents

Equity Securities: Domestic and international common stocks are valued by obtaining quoted prices on recognized and highly liquid exchanges.

Fixed Income Securities: Corporate bonds and U.S. government treasury and agency securities are valued based upon the closing price reported in the market in which the security is traded. U.S. government agency and corporate asset-backed securities may utilize models, such as a matrix pricing model, that incorporate other observable inputs when broker/dealer quotes are not available, such as cash flow, security structure, or market information.

Real Estate, Private Equity and Insurance Contract Interests: The fair value of real estate, private equity and insurance contract interests are determined by the issuer based on the unit values of the funds. Unit values are determined by dividing the fund's net assets by the number of units outstanding at the valuation date. Fair value for underlying investments in real estate is determined through independent property appraisals. Fair value of underlying investments in private equity is determined based on information provided by the general partner taking into consideration the purchase price of the underlying securities, developments concerning the investee company subsequent to the acquisition of the investment, financial data and projections of the investee company provided by the general partner, and such other factors as the general partner deems relevant. Insurance contracts are principally invested in real estate assets, which are valued based upon independent appraisals.

The fair values of the Company's pension plan assets at December 31, 2018 and 2017 by asset category, were as follows:

Asset Category (in millions)	Fair Value Measurements at December 31, 2018			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 6.2	\$ 6.2	\$ —	\$ —
Equity securities:				
U.S. large-cap	50.6	24.9	25.7	—
U.S. mid- and small-cap	38.4	25.8	12.6	—
International large-cap	18.0	—	18.0	—
International small-cap	8.1	—	8.1	—
Fixed income securities:				
U.S. Treasuries	8.0	—	8.0	—
Municipal bonds	0.1	—	0.1	—
Investment grade U.S. corporate bonds	20.8	—	20.8	—
High-yield U.S. corporate bonds	0.5	—	0.5	—
Other types of investments:				
Real estate partnership interests	11.6	—	—	11.6

Edgar Filing: Matson, Inc. - Form 10-K

Total	\$ 162.3	\$ 56.9	\$ 93.8	\$ 11.6
-------	----------	---------	---------	---------

64

---

Table of Contents

Asset Category (in millions)	Fair Value Measurements at December 31, 2017			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 6.6	\$ 6.6	\$ —	\$ —
Equity securities:				
U.S. large-cap	66.0	28.1	37.9	—
U.S. mid- and small-cap	42.6	28.3	14.3	—
International large-cap	21.6	—	21.6	—
International small-cap	9.5	—	9.5	—
Fixed income securities:				
U.S. Treasuries	8.0	—	8.0	—
Municipal bonds	0.1	—	0.1	—
Investment grade U.S. corporate bonds	17.5	—	17.5	—
High-yield U.S. corporate bonds	3.6	—	3.6	—
Other types of investments:				
Real estate partnership interests	11.1	—	—	11.1
Private equity partnership interests	0.1	—	—	0.1
Total	\$ 186.7	\$ 63.0	\$ 112.5	\$ 11.2

The table below presents a reconciliation of all pension plan investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2018 and 2017:

(In millions)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Real Estate	Private Equity	Total
Balance at December 31, 2016	\$ 10.8	\$ 0.1	\$ 10.9
Actual return (loss) on plan assets:			
Assets held at the reporting date	0.3	0.1	0.4
Assets sold during the period	0.5	(0.1)	0.4
Purchases, sales and settlements, net	(0.5)	—	(0.5)
Balance at December 31, 2017	11.1	0.1	11.2
Actual return (loss) on plan assets:			
Assets held at the reporting date	0.5	0.5	1.0
Assets sold during the period	0.5	(0.4)	0.1
Purchases, sales and settlements, net	(0.5)	(0.2)	(0.7)
Balance at December 31, 2018	\$ 11.6	\$ —	\$ 11.6

Contributions to each of the qualified single-employer defined benefit pension plans are determined annually by the Company's pension administrative committee, based upon the actuarially determined minimum required contribution under the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, the Pension Protection Act of 2006, and the maximum deductible contribution allowed for tax purposes. In 2017 and 2016, the Company

contributed \$3.0 million and \$7.5 million, respectively, in pension contributions in these plans. There was no pension contribution to these plans in 2018. The Company's funding policy is to contribute cash to its pension plans so that it meets at least the minimum contribution requirements.

The benefit formulas for employees who are members of collective bargaining units are determined according to the collective bargaining agreements, either using final average pay as the base or a flat dollar amount per year of service.

Effective December 31, 2011, the Company froze benefit accruals under the final average pay formula for salaried, non-bargaining unit employees hired before January 1, 2008 and transitioned them to the same cash balance formula for employees hired on or after January 1, 2008. Retirement benefits under the cash balance formula are based on a fixed percentage of employee eligible compensation, plus interest. The plan interest credit rate will vary from year to year based on the ten-year U.S. Treasury rate.

Benefit Plan Assets and Obligations: The measurement date for the Company's benefit plan disclosures is December 31 of each year.

Table of Contents

The status of the funded qualified defined benefit pension plans and the unfunded post-retirement benefit plans at December 31, 2018 and 2017 are shown below:

(In millions)	Pension Benefits		Post-retirement Benefits	
	December 31,		December 31,	
	2018	2017	2018	2017
<b>Change in Benefit Obligation:</b>				
Benefit obligation at beginning of year	\$ 232.1	\$ 225.4	\$ 27.7	\$ 25.2
Service cost	4.4	4.0	0.6	0.5
Interest cost	8.6	9.7	1.0	1.1
Plan participants' contributions	—	—	0.9	1.1
Plan settlements	—	(0.3)	—	—
Actuarial (gain) loss	(14.1)	13.9	(6.2)	1.9
Benefits paid, net of subsidies received	(12.0)	(18.9)	(1.8)	(2.1)
Expenses paid	(1.6)	(1.7)	—	—
Benefit obligation at end of year	217.4	232.1	22.2	27.7
<b>Change in Plan Assets:</b>				
Fair value of plan assets at beginning of year	186.7	178.8	—	—
Actual return on plan assets	(10.9)	25.8	—	—
Plan participants' contributions	—	—	0.9	1.1
Plan settlements	—	(0.3)	—	—
Employer contributions	—	3.0	0.9	1.0
Benefits paid, net of subsidies received	(12.0)	(18.9)	(1.8)	(2.1)
Expenses paid	(1.6)	(1.7)	—	—
Fair value of plan assets at end of year	162.2	186.7	—	—
Funded Status and Recognized Liability	\$ (55.2)	\$ (45.4)	\$ (22.2)	\$ (27.7)

Qualified pension and post-retirement benefits plans liabilities recognized in the Consolidated Balance Sheets and expenses recognized in accumulated other comprehensive income (loss) at December 31, 2018 and 2017 were as follows:

(In millions)	Pension Benefits		Post-retirement Benefits	
	December 31,		December 31,	
	2018	2017	2018	2017
Non-current assets	\$ 0.8	\$ 0.5	\$ —	\$ —
Current liabilities	—	—	(1.2)	(1.2)
Non-current liabilities, net	(56.0)	(45.9)	(21.0)	(26.5)
Total	\$ (55.2)	\$ (45.4)	\$ (22.2)	\$ (27.7)
Net loss, net of taxes	\$ (61.8)	\$ (46.9)	\$ (0.1)	\$ (4.6)
Prior service credit, net of taxes	6.0	6.3	21.8	20.2



Edgar Filing: Matson, Inc. - Form 10-K

Total	\$ (55.8)	\$ (40.6)	\$ 21.7	\$ 15.6
-------	-----------	-----------	---------	---------

The information for qualified defined benefit pension plans with an accumulated benefit obligation in excess of plan assets at December 31, 2018 and 2017 is shown below:

(In millions)	2018	2017
Projected benefit obligation	\$ 215.9	\$ 229.9
Accumulated benefit obligation	\$ 215.6	\$ 229.6
Fair value of plan assets	\$ 159.9	\$ 184.7

The estimated net loss and prior service credit for the qualified pension plans that will be amortized from accumulated other comprehensive income (loss) is a net periodic cost of \$2.2 million, net of tax, in 2019. The estimated net loss and prior service credit for the post-retirement benefit plans that will be amortized from accumulated other comprehensive income (loss) is a net periodic benefit of \$2.8 million, net of tax, in 2019.

66

---

Table of Contents

Unrecognized gains and losses of the post-retirement benefit plans are amortized over five years. Although current health care costs are expected to increase, the Company attempts to mitigate these increases by maintaining caps on certain of its benefit plans, using lower cost health care plan options where possible, requiring that certain groups of employees pay a portion of their benefit costs, self insuring for certain insurance plans, encouraging wellness programs for employees, and implementing measures to mitigate future benefit cost increases.

Components of the net periodic benefit cost and other amounts recognized in other comprehensive income (loss) for the qualified pension plans and the post-retirement benefit plans during 2018, 2017, and 2016 were as follows:

(In millions)	Pension Benefits			Post-retirement Benefits		
	December 31,			December 31,		
	2018	2017	2016	2018	2017	2016
Components of Net Periodic Benefit Cost (Benefit):						
Service cost	\$ 4.4	\$ 4.0	\$ 3.9	\$ 0.6	\$ 0.5	\$ 1.5
Interest cost	8.6	9.7	9.7	1.0	1.1	2.7
Expected return on plan assets	(13.5)	(13.5)	(13.4)	—	—	—
Amortization of net loss	4.6	5.1	5.5	1.5	1.2	1.2
Amortization of prior service credit	(2.3)	(2.3)	(2.3)	(3.8)	(3.8)	(1.4)
Net periodic benefit cost	\$ 1.8	\$ 3.0	\$ 3.4	\$ (0.7)	\$ (1.0)	\$ 4.0
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income, net of tax:						
Net loss (gain)	\$ 7.8	\$ 0.8	\$ 1.6	\$ (4.7)	\$ 1.1	\$ 1.2
New prior service cost (credit)	—	—	—	—	—	(23.4)
Amortization of net loss	(3.5)	(3.1)	(3.3)	(1.1)	(0.7)	(0.8)
Amortization of prior service credit	1.7	1.4	1.4	2.8	2.3	0.9
Total recognized in other comprehensive (income) loss	\$ 6.0	\$ (0.9)	\$ (0.3)	\$ (3.0)	\$ 2.7	\$ (22.1)
Total recognized in net periodic benefit cost and other comprehensive (income) loss	\$ 7.8	\$ 2.1	\$ 3.1	\$ (3.7)	\$ 1.7	\$ (18.1)

The weighted average assumptions used to determine benefit information during 2018, 2017, and 2016, were as follows:

	Pension Benefits			Post-retirement Benefits		
	December 31,			December 31,		
	2018	2017	2016	2018	2017	2016
Discount rate (1)	4.40 %	3.80 %	4.40 %	4.50 %	3.90 %	4.60 %
Expected return on plan assets	7.50 %	7.75 %	8.00 %			
Rate of compensation increase	3.00 %	3.00 %	3.00 %	3.00 %	3.00 %	3.00 %
Initial health care cost trend rate:						
Pre-65 group				6.00 %	6.30 %	6.60 %
Post-65 group				6.30 %	6.80 %	7.20 %
Ultimate health care cost trend rate				4.40 %	4.40 %	4.40 %
Year ultimate health care cost trend rate is reached:						
Pre-65 group				2037	2037	2037
Post-65 group				2036	2036	2036

---

(1) The Company derives a single equivalent rate utilizing a yield curve constructed from a portfolio of high-quality corporate bonds with various maturities.

Table of Contents

If the assumed health care cost trend rate were increased or decreased one percentage point, the accumulated post-retirement benefit obligation, as of December 31, 2018, 2017, and 2016 and the net periodic post-retirement benefit cost for 2018, 2017 and 2016, would have increased or decreased as follows:

(In millions)	Post-retirement Benefits One Percentage Point					
	Increase			Decrease		
	2018	2017	2016	2018	2017	2016
Effect on total of service cost and interest cost components	\$ 0.3	\$ 0.3	\$ 0.9	\$ (0.2)	\$ (0.2)	\$ (0.7)
Effect on post-retirement benefit obligation	\$ 2.6	\$ 4.0	\$ 11.5	\$ (2.0)	\$ (3.0)	\$ (8.3)

Non-qualified Pension Plans: The Company has non-qualified supplemental pension plans covering certain employees and retirees, which provide for incremental pension payments from the Company's general funds so that total pension benefits would be substantially equal to amounts that would have been payable from the Company's qualified pension plans if it were not for limitations imposed by income tax law. A few employees and retirees receive additional supplemental pension benefits. Non-qualified pension plan liabilities recognized in the Consolidated Balance Sheets and expenses recognized in accumulated other comprehensive income (loss) at December 31, 2018 and 2017 are as follows:

(In millions)	Non-qualified Pension Benefits December 31,	
	2018	2017
Current liabilities	\$ (1.8)	\$ (1.8)
Non-current liabilities, net	(2.4)	(2.7)
Total	\$ (4.2)	\$ (4.5)
Net loss, net of taxes	\$ (0.4)	\$ (0.6)
Prior service credit, net of taxes	0.3	0.3
Total	\$ (0.1)	\$ (0.3)

Discount rates of 4.0 percent and 3.2 percent were used in determining the 2018 and 2017 non-qualified pension plan obligations, respectively. The estimated net loss and prior service credit for the non-qualified pension plans that will be amortized from accumulated other comprehensive income (loss) in 2019 is nominal.

Estimated Benefit Payments: The estimated future benefit payments for the next ten years as of December 31, 2018 were as follows:

Pension	Non-qualified Pension	Post-retirement
---------	--------------------------	-----------------

Edgar Filing: Matson, Inc. - Form 10-K

Year (in millions)	Benefits	Benefits	Benefits (1)
2019	\$ 13.2	\$ 1.8	\$ 1.2
2020	13.5	0.4	1.1
2021	13.8	—	1.2
2022	14.1	0.3	1.2
2023	14.5	1.8	1.2
2024-2028	75.0	0.1	5.8
Total	\$ 144.1	\$ 4.4	\$ 11.7

(1) Net of plan participants' contributions and Medicare Part D subsidies.

Defined Contribution Plans: The Company sponsors defined contribution plans that qualify under Sections 401(a) and 401(k) of the Internal Revenue Code. The Company may make discretionary matching contributions equal to a specified percentage of each participant's 401(k) contributions. For the year ended December 31, 2018, the Company provided matching contributions of up to 3 percent of eligible employee compensation. The Company's matching contributions expensed in 2018, 2017 and 2016 was \$2.4 million, \$2.4 million and \$2.1 million, respectively.

The Company may also provide a discretionary profit sharing contribution under the qualified defined contribution plans, to salaried, non-bargaining unit employees, if both a minimum threshold of Company performance is achieved and the Board has approved the profit sharing contribution. For certain eligible employees, supplemental profit sharing contributions are credited under a non-qualified plan to be paid after separation from service from the Company's general funds so that total profit sharing contributions would be substantially equal to amounts that would have been

Table of Contents

contributed to the Company's qualified defined contribution plans if it were not for limitations imposed by income tax law. Discretionary profit sharing contributions expensed in 2018 and 2017 were \$1.4 million and \$2.3 million, respectively. There were no discretionary profit sharing contributions expensed in 2016.

## Multi-employer Bargaining Plans:

The Company contributes to multi-employer defined benefit pension plans under the terms of collective-bargaining agreements that cover its bargaining unit employees. Contributions are generally based on amounts paid for union labor or cargo volume. The risks of participating in multi-employer plans are different from single-employer plans because assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. Additionally, if one employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

The multi-employer pension plans are subject to the plan termination insurance provisions of ERISA and are paying premiums to the Pension Benefit Guaranty Corporation ("PBG"). The statutes provide that an employer who withdraws from, or significantly reduces its contribution obligation to, a multi-employer plan generally will be required to continue funding its proportional share of the plan's unfunded vested benefits. As of December 31, 2018, the Company's estimated benefit plan withdrawal obligations were \$244.2 million. Except as described in Note 12, no withdrawal obligations have been recorded by the Company in the Consolidated Balance Sheets at December 31, 2018 and 2017, as the Company has no present intention of withdrawing from and does not anticipate termination of any of these plans.

Information regarding the Company's participation in multi-employer pension plans is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2018 and 2017 is for the plan's year-end at December 31, 2018 and 2017, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The funding improvement plan ("FIP") or rehabilitation plan ("RP") column indicates the status which is either pending or has been implemented. The last column lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

EIN/Pension Plan Number	Notes	Pension Protection Act Zone as of		FIP/RP Status	5% Contributor	Contributions of Matson (in millions)			Surcharge Imposed
		December 31, 2018	2017			2018	2017	2016	
13-6161999-001		Green	Green	Implemented	Yes	\$ 1.0	\$ 1.0	\$ —	No

Edgar Filing: Matson, Inc. - Form 10-K

20-0389370-001		Yellow	Yellow	Implemented	Yes	5.7	5.7	5.3	No
99-0314293-001		Yellow	Yellow	Implemented	Yes	4.3	3.8	3.5	No
13-6372630-001		Green	Green	No	Yes	3.0	3.0	3.1	No
37-1719247-001		(1)	(1)	No	Yes	1.7	1.7	1.8	No
51-6029896-001	(2)	Green	Green	No	Yes	4.0	4.4	4.1	No
26-1574440-001		Green	Green	No	No	0.2	0.2	0.2	No
94-6201677-001		Green	Green	No	Yes	—	—	—	No
94-6061923-001		Green	Green	No	Yes	1.2	0.7	0.6	No
92-6003463-024	(3)	Red	Red	Implemented	Yes	1.9	2.4	2.6	Yes
91-6085352-001	(3)	Green	Green	No	Yes	1.0	0.1	0.1	No
91-6145047-001	(3)	Green	Green	No	No	1.4	1.3	1.3	No
95-3746907-001	(3)	Green	Green	No	No	—	—	—	No

Edgar Filing: Matson, Inc. - Form 10-K

13-2864289-001	(3)	Red	Red	Implemented	No	0.1	0.1	0.1	No
13-6100329-001	(3) (4)	Green	Green	No	No	—	—	—	No
						\$ 25.5	\$ 24.4	\$ 22.7	

---

(1) The Plan is not subject to the PPA funding requirements under IRS Section 432 as the Plan was not in effect on July 16, 2006.

69

---



Table of Contents

- (2) In 2012, the Company agreed to contribute at least 11.7 percent of total wages paid to employees in covered Marine Engineer Benefits Association (“MEBA”) employment to the MEBA Pension Trust by a reallocation of the total labor cost under the collective bargaining agreement. The pension contribution rate was determined by the plan’s actuary to be necessary to maintain full funding of the pension plan and is fully offset by a reallocation of wages and other benefits.
- (3) Matson's contributions to these plans commenced after the acquisition of Horizon on May 29, 2015.
- (4) The Company does not make contributions directly to the Seafarers Pension Plan. Instead, contributions are made to the Seafarers Health and Benefits Plan, and are subsequently re-allocated to the Seafarers Pension Plan at the discretion of the plan Trustee.
- (5) Represents the expiration date of the collective bargaining agreement.

The Company also contributes to multi-employer plans that provide post-retirement health and other benefits other than pensions under the terms of collective-bargaining agreements. Benefits provided to active and retired employees and their eligible dependents under these plans include medical, dental, vision and prescription drug. These plans are not subject to the PBGC plan termination and withdrawal liability provisions of ERISA applicable to multi-employer defined benefit pension plans. Contributions to these multi-employer postretirement health and other benefits were \$30.0 million, \$27.0 million and \$22.5 million in 2018, 2017 and 2016, respectively.

Multi-employer Defined Contribution Plans: The Company contributes to six multi-employer defined contribution pension plans. These plans are not subject to the withdrawal liability provisions of ERISA or the PBGC applicable to multi-employer defined benefit pension plans. Contributions made to these plans by the Company were \$4.8 million, \$5.0 million and \$5.3 million in 2018, 2017 and 2016, respectively.

## 12.MULTI-EMPLOYER WITHDRAWAL LIABILITIES

Horizon ceased all of its operations in Puerto Rico during the first quarter of 2015, which resulted in a mass withdrawal from its multi-employer ILA-PRSSA pension fund. The Company assumed this liability as part of the acquisition of Horizon on May 29, 2015. The Company estimated the mass withdrawal liability based upon the required undiscounted quarterly payment of approximately \$1.0 million to be paid to the ILA-PRSSA pension fund over a period which ends in March 2040, discounted to present value using the Company’s incremental borrowing rate. Future estimated annual payments to be paid to the ILA-PRSSA pension fund as of December 31, 2018 were as follows:

Year (in millions)	Total
2019	\$ 4.1
2020	4.1
2021	4.1

Edgar Filing: Matson, Inc. - Form 10-K

2022	4.1
2023	4.1
Thereafter	68.0
Total remaining future undiscounted payments due to the ILA-PRSSA pension fund	88.5
Less: amount representing interest	(27.8)
Present value of multi-employer withdrawal liability	60.7
Current portion of multi-employer withdrawal liability (see Note 2)	(4.1)
Long-term portion of multi-employer withdrawal liability (see Note 2)	\$ 56.6

Furthermore, the Company assumed a partial withdrawal liability related to the Local 153 Fund of the OPEIU. The partial withdrawal liability resulted from a decline in the number of contribution base units related to the Local 153 Fund caused by Horizon terminating all of its operations in Puerto Rico during the first quarter of 2015. The Company included the estimated partial withdrawal liability of \$6.7 million within accruals and other liabilities in the Consolidated Balance Sheet as of December 31, 2018, based upon the expected timing of the payment. The same amount was included in long-term liabilities in the Consolidated Balance Sheet as of December 31, 2017.

Table of Contents

## 13.ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) by component, net of tax, are as follows:

(In millions)	Pension Benefits	Post-Retirement Benefits	Non-Qualified Pension Benefits	Other	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2016	\$ (41.4)	\$ 18.1	\$ (0.4)	\$ 0.1	\$ (23.6)
Net gain in prior service costs	—	0.7	—	0.1	0.8
Amortization of prior service cost	(1.4)	(2.5)	(0.1)	—	(4.0)
Amortization of net loss (gain)	2.2	(0.7)	0.2	—	1.7
Other adjustments	—	—	—	0.2	0.2
Balance at December 31, 2017	(40.6)	15.6	(0.3)	0.4	(24.9)
Reclassification adjustment related to the Tax Act (1)	(9.2)	3.4	(0.2)	—	(6.0)
Amortization of prior service cost	(1.7)	(2.9)	(0.1)	—	(4.7)
Amortization of net loss (gain)	(4.3)	5.6	0.5	(0.7)	1.1
Balance at December 31, 2018	\$ (55.8)	\$ 21.7	\$ (0.1)	\$ (0.3)	\$ (34.5)

(1) Reclassification from accumulated other comprehensive income (loss) to retained earnings for the remeasurement tax effects resulting from applying the Tax Act in accordance with ASU 2018-02.

Other comprehensive income (loss) in the Consolidated Statements of Income and Comprehensive Income are shown net of tax benefit (expense) of \$0.2 million, \$(4.4) million and \$(14.2) million for the years ended December 2018, 2017, and 2016, respectively.

## 14.EARNINGS PER-SHARE

Basic earnings per share are determined by dividing net income by the weighted-average common shares outstanding during the year. The calculation of diluted earnings per share includes the dilutive effect of unexercised non-qualified stock options and non-vested stock units. The computation of weighted average dilutive shares outstanding excluded a nominal amount of anti-dilutive non-qualified stock options for each of the years 2018, 2017, and 2016.

The denominator used to compute basic and diluted earnings per share for the years ended December 31, 2018, 2017 and 2016 are as follows:

	Year Ended December 31, 2018			Year Ended December 31, 2017			Year Ended D	
	Net	Weighted Average Common Shares	Per Common Share	Net	Weighted Average Common Shares	Per Common Share	Net	Co
(In millions, except per-share amounts)	Income	Shares	Amount	Income	Shares	Amount	Income	Sha
Basic:	\$ 109.0	42.7	\$ 2.55	\$ 231.0	42.9	\$ 5.38	\$ 81.4	43.
Effect of Dilutive Securities:		0.3	(0.02)		0.3	(0.03)		0.4
Diluted:	\$ 109.0	43.0	\$ 2.53	\$ 231.0	43.2	\$ 5.35	\$ 81.4	43..

## 15.SHARE-BASED AWARDS

The Company has share-based compensation plans which are described as follows:

**2016 Incentive Compensation Plan:** The 2016 Incentive Compensation Plan (the “2016 Plan”) serves as a successor to the 2007 Incentive Compensation Plan and all other predecessor plans. No further grants will be made under the predecessor stock option plans. Under the 2016 Plan, 2.5 million shares of common stock were reserved for issuance. Shareholders approved the 2016 Plan at the 2016 Annual Meeting of Shareholders.

The 2016 Plan consists of four separate incentive compensation programs: (i) the discretionary grant program, (ii) the stock issuance program, (iii) the incentive bonus program and (iv) the automatic grant program for the non employee

Table of Contents

members of the Company's Board of Directors. Share-based compensation is generally awarded under three of the four programs, as more fully described below.

**Discretionary Grant Program** — Under the Discretionary Grant Program, stock options may be granted with an exercise price no less than 100 percent of the fair market value (defined as the closing market price) of the Company's common stock on the date of the grant. Options generally become exercisable ratably over three years and have a maximum contractual term of 10 years.

**Stock Issuance Program** — Under the Stock Issuance Program, shares of common stock, restricted stock units or performance shares may be granted. Time-based equity awards generally vest ratably over three years. Provided certain three-year performance targets are achieved, performance-based equity awards generally vest on the three-year anniversary date of the grant.

**Automatic Grant Program** — At each annual shareholder meeting, non-employee directors will receive an award of restricted stock units that entitle the holder to an equivalent number of shares of common stock upon vesting, under the automatic grant program. Awards of restricted stock units granted under the program generally vest on the one-year anniversary of the grant date.

The shares of common stock authorized to be issued under the 2016 Plan may be drawn from shares of the Company's authorized but unissued common stock or from shares of its common stock that the Company acquires, including shares purchased on the open market or in private transactions.

Share-based compensation expense and other information related to share-based awards for the years ended December 31, 2018, 2017 and 2016 are as follows:

	Years Ended December 31,		
	2018	2017	2016
Share-based compensation expense, net of estimated forfeitures (in millions)			
Share-based compensation expense	\$ 12.1	\$ 11.1	\$ 9.8
Intrinsic value of options exercised	\$ 0.5	\$ 0.7	\$ 2.0
Tax benefit realized upon stock vesting	\$ 2.7	\$ 6.8	\$ 5.9
Fair value of stock vested	\$ 10.8	\$ 17.3	\$ 15.8

As of December 31, 2018, there was no unrecognized compensation cost related to non-vested stock options. As of December 31, 2018, unrecognized compensation cost related to non-vested restricted stock units and performance-based equity awards were \$11.6 million. Unrecognized compensation cost is expected to be recognized over a weighted average period of approximately 1.7 years.

Activity in the Company's stock option plans for the year ended December 31, 2018, was as follows (in thousands, except weighted average exercise price and weighted average contractual life):

	2007 Plan Shares	Weighted Average Exercise Price	Weighted Average Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2017	235	\$ 21.54		
Exercised	(39)	\$ 20.18		
Outstanding at December 31, 2018	196	\$ 21.81	2.6	\$ 1,998
Exercisable at December 31, 2018	196	\$ 21.81	2.6	\$ 1,998

The following table summarizes non-vested restricted stock unit activity through December 31, 2018, (in thousands, except weighted average grant-date fair value amounts):

	2007 Plan Restricted Stock Units	2016 Plan Restricted Stock Units	Total Restricted Stock Units	Weighted Average Grant- Date Fair Value
Outstanding at December 31, 2017	377	309	686	\$ 36.41
Granted	—	384	384	\$ 31.15
Settlement of Performance Shares (1)	60	—	60	\$ 36.97
Vested	(268)	(78)	(346)	\$ 36.24
Canceled	(5)	(20)	(25)	\$ 34.49
Outstanding at December 31, 2018	164	595	759	\$ 33.92

(1) Represents 2015 Performance Shares paid out above target.

Table of Contents

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company values its financial instruments based on the fair value hierarchy of valuation techniques for fair value measurements. Level 1 inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability. If the technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy, the lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The Company uses Level 1 inputs for the fair values of its cash, cash equivalents and restricted cash, and Level 2 inputs for its capital construction fund – cash on deposit, and variable and fixed rate debt. The fair values of cash, cash equivalents and restricted cash, and variable rate debt approximate their carrying values due to the nature of the instruments. The fair value of fixed rate debt is calculated based upon interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements.

The carrying value and fair value of the Company's financial instruments as of December 31, 2018 and 2017 are as follows:

	Total		Quoted Prices in Active Markets	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In millions)	Carrying Value December 31, 2018	Total Fair Value	(Level 1)	(Level 2)	(Level 3)
		Measurements at December 31, 2018			
Cash and cash equivalents	\$ 19.6	\$ 19.6	\$ 19.6	\$ —	\$ —
Restricted cash	4.9	4.9	4.9	—	—
Variable rate debt	235.0	235.0	—	235.0	—
Fixed rate debt	621.4	584.5	—	584.5	—

(In millions)	December 31, 2017	Fair Value Measurements at December 31, 2017			
Cash and cash equivalents	\$ 19.8	\$ 19.8	\$ 19.8	\$ —	\$ —
CCF – cash on deposit	0.9	0.9	—	0.9	—
Variable rate debt	205.0	205.0	—	205.0	—
Fixed rate debt	652.1	651.4	—	651.4	—

## 17.COMMITMENTS AND CONTINGENCIES

Commitments and contractual obligations, excluding debt obligations (see Note 8), lease commitments (see Note 9), pension and post-retirement plan commitments, and multi-employer bargaining plan withdrawal obligations (see Note 11 and 12), are as follows as of December 31, 2018:

Commitments and Contractual Obligations (in millions)	Total
Standby letters of credit (1)	\$ 7.9
Bonds (2)	\$ 33.3
Vessel construction obligations (3)	\$ 250.6
Vendor and other obligations (4)	\$ 29.4

---

- (1) Standby letters of credit are required for the Company's uninsured workers' compensation and other insurance programs, and other needs.
- (2) Bonds are required for U.S. Customs and other related matters.
- (3) Vessel construction obligations represent remaining contractual obligations entered into for the construction of new vessels.
- (4) Vendor and other obligations include: (i) non-cancellable contractual capital project obligations (excluding vessel construction obligations); (ii) dry-docking related obligations; and (iii) other contractual obligations.

These amounts are not recorded on the Company's Consolidated Balance Sheets and it is not expected that the Company or its subsidiaries will be called upon to advance funds under these commitments.



Table of Contents

Contingencies: Contingencies and other litigation related matters are described as follows:

Environmental Matters: The Company’s Ocean Transportation segment has certain risks that could result in expenditures for environmental remediation. The Company believes that based on all information available to it, the Company is currently in compliance, in all material respects, with applicable environmental laws and regulations.

Other Matters: The Company and its subsidiaries are parties to, or may be contingently liable in connection with other legal actions arising in the normal course of their businesses, the outcomes of which, in the opinion of management after consultation with counsel, would not have a material effect on the Company’s financial condition, results of operations, or cash flows.

18.BUSINESS COMBINATIONS

Span Alaska Acquisition: On August 4, 2016 (the “Effective Date”), Matson Logistics completed the purchase of 100 percent of the membership interests of Span Alaska pursuant to the terms of the Membership Interest Purchase Agreement, dated July 18, 2016. At the Effective Date, Span Alaska became a wholly-owned subsidiary of Matson Logistics. Span Alaska is an asset-light logistics company providing freight forwarding services primarily to the Alaska market. Span Alaska consolidates freight in Auburn, Washington, for shipment to Alaska and distribution through a network of terminals in Anchorage, Fairbanks, Wasilla, Kenai, Juneau and Kodiak. Span Alaska’s operations are recorded within the Logistics segment of the Company.

Total consideration paid by the Company on the Effective Date for the membership interests in Span Alaska including the repayment of Span Alaska’s debt and accrued interest, is as follows:

Consideration (in millions)	Total
Membership interests	\$ 117.0
Span Alaska’s debt and accrued interest	81.9
Total	\$ 198.9

The Span Alaska acquisition was accounted for as a business combination in accordance with ASC 805, Business Combinations (“ASC 805”). The assets acquired and liabilities assumed in the Span Alaska acquisition were recorded based on fair value estimates as of the Effective Date, with the remaining unallocated purchase price recorded as goodwill. Such fair value estimates require significant judgment, and include estimates used in the valuation of

property and equipment, and intangible assets. The Company finalized its purchase accounting for the Span Alaska acquisition as of December 31, 2016.

The following table summarizes the final fair values assigned to Span Alaska's assets acquired and liabilities assumed at the Effective Date:

Purchase Price Allocation (in millions)	Final
Cash and cash equivalents	\$ 4.4
Accounts receivable	11.1
Prepaid and other current assets	0.9
Property and equipment	8.1
Intangibles – Customer relationships	79.3
Intangibles – Trade name	27.3
Other long-term assets	0.1
Accounts payable	(3.3)
Accruals and other current liabilities	(6.4)
Capital lease obligations	(1.2)
Span Alaska's debt and accrued interest	(81.9)
Total identifiable assets less liabilities	38.4
Total consideration for membership interests	(117.0)
Goodwill	\$ 78.6

Table of Contents

The Company's Consolidated Statements of Income and Comprehensive Income for the year ended December 31, 2018, 2017 and 2016 include operating revenue of \$66.5 million, \$59.1 million and \$22.8 million (after elimination of intercompany revenue), and operating income of \$16.7 million, \$12.8 million and \$3.5 million, respectively, from Span Alaska's operations. One-time acquisition related costs of approximately \$3.0 million incurred as a result of the Span Alaska acquisition, is included in selling, general and administrative costs in the Consolidated Statements of Income and Comprehensive Income for the year ended December 31, 2016. One-time acquisition related costs incurred post December 31, 2016 were de minimis.

## Pro Forma Financial Information (Unaudited):

The following unaudited pro forma financial information presents the combined operating results of the Company and Span Alaska, as if the Span Alaska acquisition had been completed at the beginning of the period presented below. The unaudited pro forma financial information includes the accounting effects of the business combination, including the amortization of intangible assets, depreciation of property and equipment, and interest expense. Unaudited pro forma operating revenue is presented after elimination of intercompany revenue.

The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the result of operations that would have been achieved if the Span Alaska acquisitions had taken place at the beginning of the period presented, nor should it be taken as an indication of our future consolidated results of operations.

	Year Ended December 31, 2016
(In millions, except per-share amount)	
Pro Forma Combined:	
Operating revenue	\$ 1,974.2
Net income after income taxes	\$ 86.0
Basic Earnings Per-Share:	\$ 2.00
Diluted Earnings Per-Share:	\$ 1.98
Weighted-Average Number of Shares Outstanding:	
Basic	43.1
Diluted	43.5

## 19. QUARTERLY INFORMATION (Unaudited)

Segment results by quarter for 2018 and 2017 are as follows:

(In millions, except per-share amounts)	Quarters in the Year Ended December 31, 2018			
	Q1	Q2	Q3	Q4
Operating Revenue:				
Ocean Transportation	\$ 379.3	\$ 406.6	\$ 437.3	\$ 418.1
Logistics	132.1	150.5	152.1	146.8
Total Operating Revenue	\$ 511.4	\$ 557.1	\$ 589.4	\$ 564.9
Operating Income:				
Ocean Transportation	\$ 24.5	\$ 36.5	\$ 48.7	\$ 21.4
Logistics	4.2	9.5	9.9	9.1
Total Operating Income	28.7	46.0	58.6	30.5
Interest expense, net	(5.0)	(5.0)	(4.4)	(4.3)
Other income (expense), net	0.8	0.4	0.7	0.7
Income before Income Taxes	24.5	41.4	54.9	26.9
Income Taxes	(10.3)	(8.8)	(13.3)	(6.3)
Net Income	\$ 14.2	\$ 32.6	\$ 41.6	\$ 20.6
Basic Earnings Per Share:	\$ 0.33	\$ 0.76	\$ 0.97	\$ 0.48
Diluted Earnings Per Share:	\$ 0.33	\$ 0.76	\$ 0.97	\$ 0.48

Table of Contents

(In millions, except per-share amounts)	Quarters in the Year Ended December 31, 2017			
	Q1	Q2	Q3	Q4 (1)
Operating Revenue:				
Ocean Transportation	\$ 370.0	\$ 392.7	\$ 419.2	\$ 389.9
Logistics	104.4	119.8	124.7	126.2
Total Operating Revenue	\$ 474.4	\$ 512.5	\$ 543.9	\$ 516.1
Operating Income:				
Ocean Transportation	\$ 15.3	\$ 40.0	\$ 51.0	\$ 20.1
Logistics	1.9	7.0	7.3	4.7
Total Operating Income	17.2	47.0	58.3	24.8
Interest expense, net	(6.3)	(6.3)	(6.2)	(5.4)
Other income (expense), net	(0.8)	(1.1)	3.5	0.5
Income before Income Taxes	10.1	39.6	55.6	19.9
Income Taxes	(3.1)	(15.6)	(21.5)	146.0
Net Income	\$ 7.0	\$ 24.0	\$ 34.1	\$ 165.9
Basic Earnings Per Share:	\$ 0.16	\$ 0.56	\$ 0.79	\$ 3.90
Diluted Earnings Per Share:	\$ 0.16	\$ 0.55	\$ 0.79	\$ 3.88

(1) Income taxes, net income and per-share amounts were adjusted for an immaterial correction of an error in the quarter ended December 31, 2017 (see Note 2).

The following infrequent transactions impacted the Company's quarterly segment results during the years ended December 31, 2018 and 2017:

(In millions)	Quarters in the Year Ended December 31, 2018			
	Q1	Q2	Q3	Q4
Income taxes - Discrete adjustments related to the Tax Act (1)	\$ (3.3)	\$ 0.2	\$ —	\$ 0.2

(1) Amounts relate to discrete adjustments as a result of applying the Tax Act during the year ended December 31, 2018.

(In millions)	Quarters in the Year Ended December 31, 2017			
	Q1	Q2	Q3	Q4
Income taxes - Remeasurement and discrete adjustments related to the Tax Act (2)	\$ —	\$ —	\$ —	\$ 154.0

(2) Amount relates to the remeasurement of the Company's deferred assets and liabilities, and other discrete adjustments as a result of applying the Tax Act during the year ended December 31, 2017.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding Effectiveness of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

76

---

Table of Contents

Internal Control over Financial Reporting

See page 39 for management's annual report on internal control over financial reporting, which is incorporated herein by reference.

See page 40 for the attestation report of the independent registered public accounting firm on the Company's internal control over financial reporting, which is incorporated herein by reference.

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's fiscal fourth quarter ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

77

---

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

A.Directors

The information about the Directors of Matson required under this item will be included under the section captioned “Election of Directors” in Matson’s Proxy Statement for the 2019 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018 (“Matson’s 2019 Proxy Statement”), which section is incorporated herein by reference.

B.Executive Officers

The information about the executive officers of Matson required under this item will be included under the subsection captioned “Executive Officers” in Matson’s 2019 Proxy Statement, which subsection is incorporated herein by reference.

C.Corporate Governance

The information about the Audit Committee of the Matson Board of Directors and compliance with Section 16(a) of the Exchange Act, will be included under the subsections captioned “Board of Directors and Committees of Board” and “Section 16(a) Beneficial Ownership Reporting Compliance” in Matson’s 2019 Proxy Statement, which subsections are incorporated herein by reference.

D.Code of Ethics

The information about Matson’s Code of Ethics required under this item will be included under the subsection captioned “Code of Ethics” in Matson’s 2019 Proxy Statement, which subsection is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION



The information required under this item will be included under the section captioned “Executive Compensation” and the subsections captioned “Compensation of Directors” and “Pay Risk Assessment” in Matson’s 2019 Proxy Statement, which section and subsections are incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required under this item will be included under the section captioned “Security Ownership of Certain Shareholders” and the subsections captioned “Security Ownership of Directors and Executive Officers” in Matson’s 2019 Proxy Statement, which section and subsections are incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required under this item will be included in the section captioned “Election of Directors” and the subsection captioned “Certain Relationships and Transactions” in Matson’s 2019 Proxy Statement, which section and subsection are incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information concerning principal accountant fees and services required under this item will be included under the sections captioned “Audit Committee Report” and “Ratification of Appointment of Independent Registered Public Accounting Firm” in Matson’s 2019 Proxy Statement, which sections are incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

A. Financial Statements

The Consolidated Financial Statements are set forth in Item 8 of Part II above.

B. Financial Statement Schedules

Except as described below, all schedules are omitted because of the absence of the conditions under which they are required or because the information called for is included in the Consolidated Financial Statements or notes thereto.

At December 31, 2018, the Company's investment in the Terminal Joint Venture, SSAT, exceeded the 10.0 percent and 20.0 percent thresholds in at least one of the tests under Rule 3-09 and Rule 4-08(g) of Regulation S-X, and as such the audited financial statements of the Terminal Joint Venture are required to be filed as financial statement schedules herein within 90 days of SSAT's fiscal year end, which is January 31. Accordingly, the financial statements of the Terminal Joint Venture will be filed via an amendment to this Annual Report on Form 10-K on or before May 1, 2019.

C. Exhibits Required by Item 601 of Regulation S-K

Exhibits not filed herewith are incorporated by reference to the exhibit number and previous filing shown in parentheses. All previous exhibits were filed with the Securities and Exchange Commission in Washington, D.C.

Exhibits filed pursuant to the Securities Exchange Act of 1934 were filed under file number 001-34187. Shareholders may obtain copies of exhibits for a copying and handling charge of \$0.15 per page by writing to, Corporate Secretary, Matson, Inc., 555 12th Street, Oakland, California 94607.

- 2 Plan of acquisition, reorganization, arrangement, liquidation or succession.
  - 2.1 Agreement and Plan of Merger, dated as of November 11, 2014, by and among Matson Navigation Company, Inc., Hogan Acquisition Inc. and Horizon Lines, Inc. (incorporated by reference to Exhibit 2.1 of Matson's Form 8-K dated November 11, 2014).
  - 2.2 Amendment No. 1 to Agreement and Plan of Merger, dated as of February 13, 2015, by and among Matson Navigation Company, Inc., Hogan Acquisition Inc. and Horizon Lines, Inc. (incorporated by reference to Exhibit 2.1 of Matson's Form 8-K dated February 17, 2015).
  - 2.3 Contribution, Assumption and Purchase Agreement, dated as of November 11, 2014, by and among The Pasha Group, SR Holding LLC, Horizon Lines, Inc. and Sunrise Operations LLC (incorporated by reference to Exhibit 2.2 of Horizon Lines, Inc.'s Form 8-K dated November 11, 2014).
  - 2.4 Amendment No. 1 to the Contribution, Assumption and Purchase Agreement, dated as of May 29, 2015, by and among The Pasha Group, SR Holding LLC, Horizon Lines, Inc. and Sunrise Operations LLC (incorporated by reference to Exhibit 2.2 of Matson's Form 10-Q for the quarter ended June 30, 2015).
  - 2.5 Membership Interest Purchase Agreement, dated as of July 18, 2016, by and between Matson Logistics, Inc. and Span Holdings, LLC (incorporated by reference to Exhibit 2.1 of Matson's Form 8 K dated July 18, 2016).
- 3 Articles of incorporation and bylaws.
  - 3.1 Amended and Restated Articles of Incorporation of Matson, Inc. (incorporated by reference to Exhibit 3.1 of Matson's Form 10-Q for the quarter ended June 30, 2012).

Table of Contents

- 3.2 Articles of Amendment to Change Corporate Name (incorporated by reference to Exhibit 4.2 of Matson's Form S-8 dated October 26, 2012).
- 3.3 Amended and Restated Bylaws of Matson, Inc. (as amended as of November 6, 2013) (incorporated by reference to Exhibit 3.1 of Matson's Form 10-Q for the quarter ended September 30, 2013).
- 10 Material contracts.
- 10.1 Amended and Restated Credit Agreement among Matson, Inc., Bank of America, N.A., as the Agent, and the lenders thereto, dated as of June 29, 2017 (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated June 29, 2017).
- 10.2 Amendment to Note Purchase Agreement among Matson, Inc. and the purchasers named therein, dated as of June 29, 2017 (incorporated by reference to Exhibit 10.2 of Matson's Form 8-K dated June 29, 2017).
- 10.3 Amendment to Note Purchase Agreement among Matson, Inc. and the purchasers named therein, dated as of June 29, 2017 (incorporated by reference to Exhibit 10.3 of Matson's Form 8-K dated June 29, 2017).
- 10.4 Amendment to Third Amended and Restated Note Purchase Agreement among Matson, Inc. and the purchasers named therein, dated as of June 29, 2017 (incorporated by reference to Exhibit 10.4 of Matson's Form 8-K dated June 29, 2017).
- 10.5 Amendment to Note Purchase Agreement among Matson, Inc. and the purchasers named therein, dated as of June 29, 2017 (incorporated by reference to Exhibit 10.5 of Matson's Form 8-K dated June 29, 2017).
- 10.6 Note Purchase Agreement among Matson, Inc. and the purchasers party thereto, dated as of December 21, 2016 (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated December 21, 2016).
- 10.7 Third Amended and Restated Note Purchase and Private Shelf Agreement among Matson, Inc. and the purchasers party thereto, dated as of September 14, 2016 (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated September 14, 2016).
- 10.8 Note Purchase Agreement among Matson, Inc. and the purchasers party thereto, dated as of July 30, 2015 (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated August 3, 2015).
- 10.9 Amendment to the Note Purchase Agreement among Matson, Inc. and the purchasers party thereto, dated as of July 30, 2015 (incorporated by reference to Exhibit 10.3 of Matson's Form 8-K dated August 3, 2015).
- 10.10 First Amendment to Note Purchase Agreement amount Matson, Inc. and the purchasers party thereto, dated as of October 1, 2015 (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated October 2, 2015).
- 10.11 Note Purchase Agreement among Matson, Inc., and the purchasers party thereto, dated as of November 5, 2013 (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated January 29, 2014).
- 10.12 Amended and Restated Limited Liability Company Agreement of SSA Terminals, LLC by and between SSA Ventures, Inc. and Matson Ventures, Inc., dated as of April 24, 2002 (certain portions of this exhibit have been omitted pursuant to a confidential treatment request submitted to the Commission) (incorporated by reference to Exhibit 10.1 of Matson's Form 10-Q for the quarter ended June 30, 2012).

- 10.13 Parent Company Agreement, dated as of April 24, 2002, by and among SSA Pacific Terminals, Inc., formerly known as Stevedoring Services of America, Inc., SSA Ventures, Inc., Matson Navigation Company, Inc. and Matson Ventures, Inc. (incorporated by reference to Exhibit 10.2 of Matson's Form 10-Q for the quarter ended June 30, 2012).

80

---

Table of Contents

- 10.14 Security Agreement between Matson Navigation Company, Inc. and the United States of America, with respect to \$55 million of Title XI ship financing bonds, dated July 29, 2004 (incorporated by reference to Exhibit 10.a.(xxvi) of Alexander & Baldwin, Inc.'s Form 10-Q for the quarter ended September 30, 2004).
- 10.15 Amendment No. 1 dated September 21, 2007, to Security Agreement between Matson Navigation Company, Inc. and the United States of America, with respect to \$55 million of Title XI ship financing bonds, dated July 29, 2004 (incorporated by reference to Exhibit 10.a.(xxx) of Alexander & Baldwin, Inc.'s Form 10-Q for the quarter ended September 30, 2007).
- 10.16\* Matson, Inc. 2007 Incentive Compensation Plan, amended and restated, effective January 29, 2015 (incorporated by reference to Exhibit 10.13 of Matson's Form 10-K for the year ended December 31, 2014).
- 10.17\* Form of Notice of Performance Share Award Grant (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated January 29, 2013).
- 10.18\* Form of Matson, Inc. Performance Share Award Agreement (incorporated by reference to Exhibit 10.2 of Matson's Form 8-K dated January 29, 2013).
- 10.19\* Form of Notice of Stock Option Grant (incorporated by reference to Exhibit 99.2 to Matson's Form S-8 dated October 26, 2012).
- 10.20\* Form of Stock Option Agreement for Non-Executive Employees (incorporated by reference to Exhibit 99.3 of Matson's Form S-8 dated October 26, 2012).
- 10.21\* Form of Stock Option Agreement for Executive Employees (incorporated by reference to Exhibit 99.4 of Matson's Form S-8 dated October 26, 2012).
- 10.22\* Form of Notice of Time-Based Restricted Stock Unit Grant (incorporated by reference to Exhibit 99.5 of Matson's Form S-8 dated October 26, 2012).
- 10.23\* Form of Time-Based Restricted Stock Unit Agreement for Non-Executive Employees (incorporated by reference to Exhibit 99.6 of Matson's Form S-8 dated October 26, 2012).
- 10.24\* Form of Time-Based Restricted Stock Unit Agreement for Executive Employees (incorporated by reference to Exhibit 99.7 of Matson's Form S-8 dated October 26, 2012).
- 10.25\* Form of Amended and Restated Restricted Stock Unit Award Agreement for Non-Employee Directors (No Deferral) (incorporated by reference to Exhibit 10.20 of Matson's Form 10-K for the year ended December 31, 2013).
- 10.26\* Form of Amended and Restated Restricted Stock Unit Award Agreement for Non-Employee Directors (Deferral Election) (incorporated by reference to Exhibit 10.21 of Matson's Form 10-K for the year ended December 31, 2013).
- 10.27\* Form of Anti-Dilution Adjustment Amendment to Restricted Stock Unit Award Agreements (incorporated by reference to Exhibit 99.10 of Matson's Form S-8 dated October 26, 2012).

Edgar Filing: Matson, Inc. - Form 10-K

- 10.28\* Form of Anti-Dilution Adjustment Amendment to Stock Option Agreements (incorporated by reference to Exhibit 99.11 of Matson's Form S-8 dated October 26, 2012).
- 10.29\* Form of Stock Option Assumption Agreement (incorporated by reference to Exhibit 99.4 of Post Effective Amendment No. 2 to Alexander & Baldwin, Inc.'s Form S-8 dated June 6, 2012).
- 10.30\* Special Form of Stock Option Assumption Agreement (incorporated by reference to Exhibit 99.6 of Post Effective Amendment No. 2 to Alexander & Baldwin, Inc.'s Form S-8 dated June 6, 2012).

81

---

Table of Contents

- 10.31\* Matson, Inc. Deferred Compensation Plan for Outside Directors (incorporated by reference to Exhibit 10.34 of Matson's Form 10-K for the year ended December 31, 2012).
- 10.32\* Matson, Inc. Excess Benefits Plan, amended and restated effective August 27, 2014 (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated August 28, 2014).
- 10.33\*,\*\* Matson, Inc. Executive Survivor/Retirement Benefit Plan (formerly known as the Alexander & Baldwin, Inc. Executive Survivor/Retirement Benefit Plan), amended and restated effective June 29, 2012.
- 10.34\* Matson, Inc. 1985 Supplemental Executive Retirement Plan (formerly known as the Alexander & Baldwin, Inc. 1985 Supplemental Executive Retirement Plan), amended and restated effective as of January 1, 2008 (incorporated by reference to Exhibit 10.b.1.(ii) of Alexander & Baldwin, Inc.'s Form 10-K for the year ended December 31, 2011).
- 10.35\* Amendment No. 1 to the Matson, Inc. 1985 Supplemental Executive Retirement Plan (formerly known as the Alexander & Baldwin, Inc. 1985 Supplemental Executive Retirement Plan), effective as of December 31, 2011 (incorporated by reference to Exhibit 10.b.1.(iii) of Alexander & Baldwin, Inc.'s Form 10-K for the year ended December 31, 2011).
- 10.36\* Amendment No. 2 to the Matson, Inc. 1985 Supplemental Executive Retirement Plan (formerly known as the Alexander & Baldwin, Inc. 1985 Supplemental Executive Retirement Plan), effective as of January 1, 2012 (incorporated by reference to Exhibit 10.b.1.(iv) of Alexander & Baldwin, Inc.'s Form 10-K for the year ended December 31, 2011).
- 10.37\* Form of Letter Agreement entered into with certain executive officers (incorporated by reference to Exhibit 10.45 of Matson's Form 10-K for the year ended December 31, 2012).
- 10.38\* Schedule identifying executive officers who have entered into Form of Letter Agreement (incorporated by reference to Exhibit 10.42 of Matson's Form 10-K for the year ended December 31, 2014).
- 10.39\* Form of Letter Agreement entered into with executive officer (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated October 24, 2014).
- 10.40\* Letter Agreement Counter Party (incorporated by reference to Exhibit 10.2 of Matson's Form 8 K dated October 24, 2014).
- 10.41\* Form of Letter Agreement entered into with executive officer (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated April 6, 2015).
- 10.42\* Letter Agreement Counter Parties (incorporated by reference to Exhibit 10.2 of Matson's Form 8-K dated April 6, 2015).
- 10.43\* Form of Letter Agreement entered into with an officer (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated May 1, 2018).
- 10.44\* Letter Agreement Counter Parties (incorporated by reference to Exhibit 10.2 of Matson's Form 8-K dated May 1, 2018).



10.45\* Matson, Inc. Executive Severance Plan (incorporated by reference to Exhibit 10.47 of Matson's Form 10-K for the year ended December 31, 2012).

10.46\* Matson, Inc. Cash Incentive Plan (incorporated by reference to Exhibit 10.49 of Matson's Form 10-K for the year ended December 31, 2012).

82

---

Table of Contents

- 10.47\* Matson, Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 10.51 of Matson's Form 10-K for the year ended December 31, 2012).
- 10.48 Shipbuilding Contract, by and between Aker Philadelphia Shipyard, Inc. and Matson Navigation Company, Inc., dated as of November 6, 2013 (certain portions of this exhibit have been omitted pursuant to a confidential treatment request submitted to the Commission) (incorporated by reference to Exhibit 10.56 of Matson's Form 10-K for the year ended December 31, 2013).
- 10.49 Shipbuilding Contract, by and between Aker Philadelphia Shipyard, Inc. and Matson Navigation Company, Inc., dated as of November 6, 2013 (certain portions of this exhibit have been omitted pursuant to a confidential treatment request submitted to the Commission) (incorporated by reference to Exhibit 10.57 of Matson's Form 10-K for the year ended December 31, 2013).
- 10.50 Guaranty Agreement by Aker Philadelphia Shipyard ASA, in favor of Matson Navigation Company, Inc., dated as of November 6, 2013 (incorporated by reference to Exhibit 10.58 of Matson's Form 10-K for the year ended December 31, 2013).
- 10.51 Contract for Construction of Two Vessels, dated as of August 25, 2016, by and between Matson Navigation Company, Inc. and National Steel and Shipbuilding Company (certain portions of this exhibit have been omitted pursuant to a confidential treatment request submitted to the Commission) (incorporated by reference to Exhibit 10.1 of Matson's Form 10-Q for the quarter ended September 30, 2016).
- 10.52 Purchaser's Corporate Guaranty Agreement, by Matson, Inc., dated as of August 25, 2016 (incorporated by reference to Exhibit 10.2 of Matson's Form 10-Q for the quarter ended September 30, 2016).
- 10.53 Contractor's Corporate Guaranty Agreement, by General Dynamics Corporation, dated as of August 25, 2016 (incorporated by reference to Exhibit 10.3 of Matson's Form 10-Q for the quarter ended September 30, 2016).
- 10.54 Form of Capital Construction Fund Agreement with Matson Navigation Company, as amended by Addendums No. 2, No. 5, No. 18, No. 20 and No. 31, thereto (incorporated by reference to Exhibit 10.60 of Matson's Form 10-K for the year ended December 31, 2013).
- 10.55 Form of Voting Agreement, dated as of November 11, 2014, among Matson Navigation Company, Inc. and certain holders of voting securities of Horizon Lines, Inc. (incorporated by reference to Exhibit 10.1 of Matson's Form 8-K dated November 11, 2014).
- 10.56\* Matson, Inc. 2016 Incentive Compensation Plan, amended as of October 25, 2017 (incorporated by reference to Exhibit 10.56 of Matson's Form 10-K for the year ended December 31, 2017).
- 10.57\* Amended and Restated Matson, Inc. Cash Incentive Plan, effective January 1, 2016 (incorporated by reference to Exhibit 10.63 of Matson's Form 10-K for the year ended December 31, 2016).
- 10.58\* Form of 2016 Plan Restricted Stock Unit Award Agreement for Non-Employee Directors (No Deferral) (incorporated by reference to Exhibit 10.64 of Matson's Form 10-K for the year ended December 31, 2016).
- 10.59\* Form of 2016 Plan Restricted Stock Unit Award Agreement for Non-Employee Directors (Deferral Election) (incorporated by reference to Exhibit 10.65 of Matson's Form 10-K for the year ended December 31, 2016).
- 10.60\*

Form of 2016 Plan Time-Based Restricted Stock Unit Agreement for Non-Executive Employees (incorporated by reference to Exhibit 10.60 of Matson's Form 10-K for the year ended December 31, 2017).

Table of Contents

- 10.61\* Form of 2016 Plan Time-Based Restricted Stock Unit Agreement for Executive Employees (incorporated by reference to Exhibit 10.61 of Matson’s Form 10-K for the year ended December 31, 2017).
- 10.62\* Form of 2016 Plan Performance Share Award Agreement for Non-Executive Employees (incorporated by reference to Exhibit 10.62 of Matson’s Form 10-K for the year ended December 31, 2017).
- 10.63\* Form of 2016 Plan Performance Share Award Agreement for Executive Employees (incorporated by reference to Exhibit 10.63 of Matson’s Form 10-K for the year ended December 31, 2017).
- 10.64\* Form of Notice of 2016 Plan Performance Share Award Grant for Non-Executive Employees (incorporated by reference to Exhibit 10.70 of Matson’s Form 10-K for the year ended December 31, 2016).
- 10.65\* Form of Notice of 2016 Plan Performance Share Award Grant for Executive Employees (incorporated by reference to Exhibit 10.71 of Matson’s Form 10-K for the year ended December 31, 2016).
- 10.66\* Form of Notice of 2016 Time-Based Restricted Stock Unit Award Grant for Non-Executive Employees (incorporated by reference to Exhibit 10.72 of Matson’s Form 10-K for the year ended December 31, 2016).
- 10.67\* Form of Notice of 2016 Time-Based Restricted Stock Unit Award Grant for Executive Employees (incorporated by reference to Exhibit 10.73 of Matson’s Form 10-K for the year ended December 31, 2016).
- 10.68\* Addendum to Award Agreements for Outstanding Equity Awards, effective as of October 25, 2017 (incorporated by reference to Exhibit 10.68 of Matson’s Form 10-K for the year ended December 31, 2017)
- 21\*\* Matson, Inc. Subsidiaries as of February 15, 2019.
- 23\*\* Consent of Deloitte & Touche, LLP dated March 4, 2019.
- 31.1\*\* Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\*\* Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32\*\*\* Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- 101.INS\*\* XBRL Instance Document  
 101.SCH\*\* XBRL Taxonomy Extension Schema Document  
 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document  
 101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document  
 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document  
 101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document

---

\* Indicates management contract or compensatory plan or arrangement.

\*\* Filed herewith.

\*\*\* Furnished herewith.

84

---

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MATSON, INC.  
(Registrant)

Date: March 4, 2019 /s/ Matthew J. Cox  
Matthew J. Cox  
Chairman and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Matthew J. Cox Matthew J. Cox	Chairman and Chief Executive Officer	March 4, 2019
/s/ W. Blake Baird W. Blake Baird	Director	March 4, 2019
/s/ Michael J. Chun Michael J. Chun	Director	March 4, 2019
/s/ Thomas B. Fargo Thomas B. Fargo	Director	March 4, 2019
/s/ Mark H. Fukunaga Mark H. Fukunaga	Director	March 4, 2019
/s/ Stanley M. Kuriyama Stanley M. Kuriyama	Director	March 4, 2019
/s/ Constance H. Lau Constance H. Lau	Director	March 4, 2019
/s/ Joel M. Wine Joel M. Wine	Senior Vice President and Chief Financial Officer	March 4, 2019

Edgar Filing: Matson, Inc. - Form 10-K

/s/ Kevin L. Stuck  
Kevin L. Stuck

Vice President and Controller (principal accounting officer)

March 4, 2019

\*\*\*\*\*

85

---