

# THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

## Cadiz Inc. (NASDAQ:CDZI)



**SUSAN KENNEDY** is Chairman of the Cadiz Inc. board of directors and CEO of the company. Ms. Kennedy joined the board in February 2021 and was elected Chairman in February 2022. In January 2024, Ms. Kennedy was appointed CEO. Ms. Kennedy has led a distinguished career as a policymaker and entrepreneur, a top adviser to two California Governors, former Commissioner of the California Public Utilities Commission, and founder and chief executive of a distributed energy company. Prior to entering the private sector, Ms. Kennedy served for two decades at the highest levels of California government, including chief of staff to Governor Arnold Schwarzenegger and cabinet secretary to Governor Gray Davis. From 2003 to 2006, Ms. Kennedy served as Commissioner of the California Public Utilities Commission (CPUC), which regulates the state's investor-owned utilities. In her leadership role for two California Governors, Ms. Kennedy was responsible for negotiating some of the largest agreements

among agricultural interests, environmentalists, rural and urban water users for multi-billion-dollar investments in water supply, storage and conveyance facilities, as well as conservation and environmental restoration projects.

### SECTOR — UTILITIES

**TWST: Can you describe the company and its history? How did it start? How was it developed?**

**Ms. Kennedy:** Cadiz is a clean water solutions provider with 45,000 acres of land in California's Mojave Desert. We are focused on utilizing our unique land, water and infrastructure assets to sustainably deliver clean, reliable and affordable water to people.

We offer five water solutions. First, is our water supply. When the company was founded in the 1980s, we started farming using groundwater for irrigation. Based on extensive hydrological data gathered over 40 years, we estimate that we have more than 30 million acre-feet of groundwater in our aquifer system — more water than the capacity of Lake Mead. If we don't conserve it, it will be lost to evaporation.

We have permits to conserve 50,000 acre-feet per year at the Cadiz Ranch and take it off property to serve water needs in local communities. That is enough water for 400,000 people.

The aquifer can also be used for groundwater storage, that is our second solution. We can import and store up to 1 million acre-feet of water in the soil beneath the ground in Fenner Gap just north of our wellfield. Our proximity to the Colorado River and Mojave River region makes us an ideal location for storing surplus water that is needed in dry years. Our storage solution is one of the very largest groundwater banking opportunities in the State of California.

Our third solution is conveyance. Having more ways to move water from where it is to where it is needed has become urgent with climate

change. We own a 220-mile idle oil/gas pipeline that we are converting to carry water. We will be the first in the world to do that. Once converted it will be able to carry 25,000 acre-feet per year across dozens of desert disadvantaged communities.

We also own a right-of-way to construct a 43-mile pipeline along a railroad that runs south from our property and intersects the Colorado River Aqueduct. Both pipelines will be able to facilitate storage and convey supply from our property.

Our fourth solution is water treatment. In 2022, we acquired a technology company called ATEC Water Systems. ATEC makes filters that are highly effective at removing iron, manganese, arsenic, chromium 6, boron, nitrates and other contaminants common in groundwater.

Our ATEC experts have designed and manufactured systems for small communities, such as mobile home parks in the California desert that only have a few wells, and very large projects, like one we're doing in Utah that is treating over 50,000 acre-feet per year.

It's a very scalable filtration technology that can eliminate groundwater contamination, a growing problem in California and the West.

Finally, our fifth solution is our expertise. We own 45,000 acres in the Mojave Desert and after 40 years we have become experts at land management, desert farming and groundwater conservation. Our team offers training, education and consulting in these areas.

**TWST: Now, in December, you became CEO of the company. Why did you want to move into this role, and what are your goals as CEO?**

**Ms. Kennedy:** Well, the primary focus of the company has been to develop our water supply and storage project and it's been in progress for 20 years. If you know anything about building large infrastructure projects in California, it should not be surprising that it takes 20 years to build projects.

My predecessors led the way in acquiring land, water rights and permits and then defending them in court so that we're now at the end of a 20-year process where we've got our major permitting, and all the legal challenges that usually come with a project are in the rear-view mirror.

We're now at the point where the project is ready for implementation and final development. And with these new assets that we've acquired, the pipeline and our ATEC filtration technology, we now must focus our efforts on meeting our mission to sustainably deliver clean, reliable and affordable water to people who need it.

I joined the board of directors a couple of years ago to help with our transition from a company focused on one water project to a diverse business focused on a clean water solutions mission. Now, as we are entering critical partnerships with public agencies and engaging with regulatory bodies on project financing and implementation, the board asked me to take over the CEO role given my background in the public sector and on the California Public Utilities Commission to ensure that we execute our mission across all of our business segments.

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It was the right time for me to come in and focus on getting all of our projects and assets fully online.

**TWST:** You’ve said that the company is at a critical inflection point. Why is that the case? And how would that shape your goals over the next two?

**Ms. Kennedy:** What happened in the last couple of years in the Southwest, with the mega drought that we had, is that you saw Lake Mead, our largest reservoir, basically collapsing. The California State Water Project was also extremely dry at the same time. So, the two major sources of water supply in Southern California were both in shortage. And the reality of climate change just hit the Southwest like a meteor, and millions and millions of people were going to be out of water in the southwestern United States and in California.

Our company has been developing its water solutions for some time, but this change of urgency has put us at an inflection point because we are truly able to address these problems that climate change has created. And after two decades of doing all the legal work and the regulatory work and the permitting work, we're ready to move forward.

We're racing to put public agency contracts in place and get construction funded so that when the next drought hits, our projects are off the ground and operational. My goal over the next two years is to have all our water supply and conveyance projects online and ATEC growing by leaps and bounds.

**TWST:** You touched on this when you were talking about the history of the company, but what other projects is ATEC working on?

**Ms. Kennedy:** ATEC has a few hundred projects under its belt, and the major one that it's working on right now is the \$10 million contract for the Central Utah Water Conservancy District, which is the largest water agency in Utah. It will treat 60 million gallons a day, or 50,000 acre-feet per year. That's a big project.

We recently secured new iron and manganese treatment projects that are now entering their design-build stage. ATEC also participated this past year in a local community project in Thermal, California, near the Salton Sea at a mobile home park on the Torres Martinez tribal reservation that has groundwater with high levels of arsenic.

Working with a community partner — Farmworkers Institute for Education and Leadership Development — ATEC and Cadiz donated the labor, filters and water infrastructure for 10 wells supplying dozens of homes in the area. As a result of the ATEC filters, the families on these wells have access to clean water.

Additionally, ATEC will continue to lead on treatment innovation, and we've filed a few patent applications. We are also exploring offering service contracts wherever and whenever an ATEC filter is installed, so that the ATEC relationship continues beyond the manufacturing phase and drives a longer sustainable income for the business.

I am very excited by the opportunities in the water treatment space for ATEC to take exceptional market share.

**TWST:** And we've already talked about the water project and that finally, after 20 years, is coming to fruition? Is that too strong of a way to put it?

**Ms. Kennedy:** No, that's the case. I mean, there's probably two or three other big projects in Southern California, and they've got 10 to 20 years of permitting in front of them. So this will be one of the largest water projects in California, and we've got 20 years of permitting behind us.

**TWST:** So how soon before we see some actual groundbreaking? How far away from that are we?

**Ms. Kennedy:** I think you're going to see the initial development stages in the next 12 months, 12 to 18 months, and then you're going to see real construction sometime in the 12-to-18-month window.

**TWST:** What should our readers and investors understand about your revenue model? And how is that part of your broader business strategy?

**Ms. Kennedy:** We currently generate revenue in our treatment and agriculture business segments and are pre-revenue — in the development phase — on our water supply, storage and conveyance business segment.

Our agriculture segment is relatively mature and stable, but we have invested in the last several years in increasing the planted acreage,

improving the wellfield and changing the wellfield from diesel engines to natural gas engines. We generate about \$1 million to \$2 million per year from our alfalfa crops and leasing acreage to other farmers. We expect it to moderately grow over the next few years.

The treatment business generates revenue from contracts to manufacture filters for treatment projects owned by water utilities or municipalities. ATEC's contracts are either with the utilities and cities or with general contractors who design and construct a treatment plant.

The groundwater treatment industry is growing as standards become more stringent. Over the last 12 months, ATEC has won several contracts, and we estimate ATEC's revenue in 2024 will exceed \$15 million.

In the water supply, storage and conveyance segment, we expect to begin receiving revenue in 2025 based on contracts with public agencies that would purchase our water supply and/or increments of storage capacity in our groundwater bank.

The market rate for supply is approximately \$1,650 per acre-foot and we would receive approximately \$850 per acre-foot net to the company when water supply is delivered. Water rates escalate at approximately 5% per year.

**“We’ve got 1 million acre-feet available of storage capacity. So that’s over a billion dollars in value in terms of selling that storage capacity, which we expect to contract for in chunks over time as our pipelines come online and pressure continues to build on agencies in the Southwest to store water for future dry years.”**

First deliveries will be via the Northern Pipeline — the oil/gas line we are converting to water conveyance that has a capacity of 25,000 acre-feet per year. When our second pipeline to the south is constructed, we would receive revenue for another 25,000 acre-feet per year.

Storage is sold like a unit in a condo complex and water agencies that have surplus to store will buy units in the complex, or the bank. The market rate to reserve water storage capacity in a groundwater bank is about \$1,500 per acre foot.

We’ve got 1 million acre-feet available of storage capacity. So that’s over a billion dollars in value in terms of selling that storage capacity, which we expect to contract for in chunks over time as our pipelines come online and pressure continues to build on agencies in the Southwest to store water for future dry years.

We estimate an NPV of \$1.7 billion from the forecasted cash flow from our asset base.

**TWST: Where do you see your biggest opportunity for growth? And how are you setting up the company to take advantage of that?**

**Ms. Kennedy:** Biggest opportunity for near term growth is going to be ATEC. Water contamination has sort of been a sleeper issue in the water industry, as there wasn't a lot of concern about leaving contaminated wells unused when there were other wells you could go to. Now, as climate change makes groundwater less available, you've got whole huge communities that have contaminated groundwater that they can no longer ignore. It's the only place they're going to find a new long-term supply.

So, we're seeing big agencies and small agencies invest in water treatment technologies for treating wastewater, for treating stormwater, for treating groundwater that's been contaminated with industrial contaminants or with naturally occurring minerals too.

For example, in the greater Los Angeles area, there are entire aquifers with lingering industrial contamination from the height of aerospace industry development in the 1980s. You also have rural disadvantaged communities that have high levels of naturally occurring minerals like arsenic or chromium-6 in their groundwater with few options for bringing in new supplies.

ATEC filters can address all these challenges and can deliver clean water to people who need it. Being able to treat water for potable use will be a growing necessity worldwide and we believe ATEC is well positioned to serve that growing demand.

**TWST: What effects, if any, are you feeling from microeconomic or geopolitical factors right now?**

**Ms. Kennedy:** I think water is its own political microcosm. You may be familiar with the famous Mark Twain quote, whiskey is for drinking, water is for fighting. Water politics is challenging in California and getting anything built and negotiated is a lengthy task.

I come from the government. I came from the regulatory world and the executive branch, and so I've lived in that world, and I am comfortable in that world, and I know how to get through it.

As I said at the start of our conversation, the last few years have demonstrated the significant impacts that climate change will have on California water and energy — drastic swings in wet and dry years, loss of infrastructure, etc.

There is a massive sense of urgency to find solutions. Regulators and public agencies know today that we must act to ensure the human right to water access. We can no longer rely on existing infrastructure or traditional supplies. That climate urgency is impacting the conversation about our solutions.

**TWST: What are the biggest concerns you have going forward over the next few years?**

**Ms. Kennedy:** Biggest concern I have is timing. There's an opportunity for billions and billions of dollars in infrastructure funds that are available for water projects, especially resiliency and climate projects. I don't think this funding will ever come again. Our public agency partners need to move to take advantage of those funds — hundreds of millions of dollars in grants and low-rate debt — so they can keep rates low for their communities as they build new projects.

**TWST: So do you think the company has benefited from the Infrastructure Investment and Jobs Act (HR 3684) at all?**

**Ms. Kennedy:** Yes, our partners will benefit from the IIA. Our water assets will ultimately be developed and owned by our public agency partners. We're the developer and have invested in the

development, but the agencies are going to be the ones that own and operate the infrastructure in the end. They're the ones that are going to benefit from the IJA because they are allowed to access the funds made available, not private companies.

By accessing these funds, it brings their costs down and their investment in new infrastructure therefore can have a more limited impact on the end water user paying their water bill.

It's very important to us that our water is affordable for communities that have historically lacked access to clean water and we will continue to work with our public agencies to ensure they can keep rates low.

**TWST: But before we wrap, is there anything you wanted to discuss that we haven't covered?**

**Ms. Kennedy:** I think the only thing I would mention is, again, we will be the first in the world to convert natural gas pipelines to carry water. And there are millions of miles of gas pipelines that are either being put out of service or been replaced by newer pipelines or pipeline routes.

Half the water on the planet evaporates because our infrastructure system was designed around the Egyptians and the Romans thousands of years ago with open air canals and big open reservoirs. Climate change has exacerbated evaporation to the point where we must

question the policy of leaving water to sit in open air infrastructure. It's a very antiquated system for moving water in the world where the temperature is gradually increasing, and the violence of our weather systems now is tearing apart that infrastructure.

Converting natural gas pipelines to move water and storing water underground is an adaptive technology that I believe is the beginning of a wave of climate adaptation that can be replicated anywhere. Stay tuned on that.

**TWST: Thank you. (CJ)**

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