



**The Wall Street Resource Interview with  
Cadiz Chairman and CEO Susan Kennedy**

**Thursday, April 25, 2024**

**Jeff Kone, The Wall Street Resource**

Welcome everyone, this is Jeff Kone with the Wall Street Resource. Joining me is Susan Kennedy, CEO of Cadiz, Inc. Good morning, Susan.

**Susan Kennedy, Chairman and CEO of Cadiz**

Good morning, Jeff. How are you doing?

**Jeff Kone, The Wall Street Resource**

Pretty good. So, Susan, for those that are not familiar with Cadiz, can you just give us a quick overview of the company?

**Susan Kennedy, Chairman and CEO of Cadiz**

Cadiz is a water solutions company. We've collected a number of very unique and valuable assets out in the Mojave Desert in southwestern United States. And with these assets, we are able to provide water supply, water storage, water conveyance, and water treatment to millions of people who are currently without access to those critical water assets in this era of climate change.

**Jeff Kone, The Wall Street Resource**

So I'm a little naive on this business. I assume it's pretty geographically constrained. Is that true?

**Susan Kennedy, Chairman and CEO of Cadiz**

Well, water is a resource that is a physical asset. And so it goes where it wants to go, and it comes from where it wants to come from. So, the real business model in the water industry is how you harness and store and move water. And so, the infrastructure assets are really the physical assets that allow you to monetize these valuable water resources in an industry to serve large populations. And Cadiz starts out with about 45,000 acres of land in the Mojave Desert, and the water resources that are under the land are

enormous. There's more water under the land around the Cadiz Ranch than there is in Lake Mead and Lake Powell combined, the largest reservoirs in the United States.

**Jeff Kone, The Wall Street Resource**

So, a couple of questions come to mind. Do you own that land, or do you lease that land and have the water rights?

**Susan Kennedy, Chairman and CEO of Cadiz**

Cadiz owns that land, and we've been farming on it for about 35 years. We have about 30,000 acres of farming, and we've built infrastructure assets using well field and pipeline assets to be able to export the water. And we do own the water rights. About 2.5 million acre feet of water we're able to export for beneficial use to be able to serve people.

**Jeff Kone, The Wall Street Resource**

And the infrastructure to move that water, do you own that or lease that?

**Susan Kennedy, Chairman and CEO of Cadiz**

We own a number of infrastructure assets. One, we purchased a pipeline from El Paso Natural Gas about five years ago, the 220-mile pipeline. It was originally built for oil, and it was converted to gas, never put into service, and we purchased it, and it will allow us to move water from our ranch across all the major infrastructure for water transportation in Southern California. We also own a 99-year right-of-way along a railroad, the Arizona-California Railroad, that will allow us to build a large pipeline to connect to the Colorado River. That puts our aquifer system smack in the middle of the Colorado River system and the state water project in California, which will be what enables us to serve such a large population.

**Jeff Kone, The Wall Street Resource**

So, California's a big population, but are you constrained to California or can you go to other states as well?

**Susan Kennedy, Chairman and CEO of Cadiz**

Well, the key value in the Cadiz asset is the ability to store water. So, using our pipelines, we'll be able to import water from a number of sources, and we can store up to a million acre-feet in addition to the water supply that comes naturally from the aquifer. That would make it one of the largest water storage projects in the southwestern United States, which means we can trade water between Arizona, Nevada, Southern California, and Northern California. So, creating this water bank with our pipelines will allow us to trade these

assets among the different water agencies that own water rights throughout the southwest.

**Jeff Kone, The Wall Street Resource**

So, with all that, how big of an addressable market do you serve?

**Susan Kennedy, Chairman and CEO of Cadiz**

Well, our immediate market will be the water agencies that serve populations in Southern California, primarily in the San Bernardino Riverside, the Inland Empire, which is an enormous area with the population centers that are growing pretty rapidly. But the trading of water and the storing of water actually opens up the market to all of Southern California, including metropolitan Los Angeles and water agencies that own water rights across the border in Arizona, Nevada, and other areas. In addition to the water assets that we own, Cadiz also acquired a company a couple of years ago called ATEC Systems, and it's a water filtration technology that we're able to bolt on to our water supply and our pipeline assets, but also deploy independently. That filtration technology is a critical means of utilizing groundwater resources. That is a scalable technology beyond the area of Southern California, but we've already deployed it across the western United States. The addressable market for groundwater and cleanup technologies is global, basically. It's a very large market.

**Jeff Kone, The Wall Street Resource**

Obviously, you're not the only one providing water. Where do you fit into the competitive landscape?

**Susan Kennedy, Chairman and CEO of Cadiz**

Each of these assets that we have, we have water supply, we have a groundwater storage bank, we have water transport assets in our pipeline, and we have water filtration technology. Each of those assets is competitive with other infrastructure and technology companies that are out there. We happen to be the only one that has all of those assets and can mix and match them to integrate them for solutions that are unique to those areas, making us, I think, competitively far and away very differentiated from everything else that's in the market because we can combine and integrate those assets into solutions that are extremely cost-effective.

**Jeff Kone, The Wall Street Resource**

What's your breakdown of revenue now between storage, filtration, et cetera?

**Susan Kennedy, Chairman and CEO of Cadiz**

Right now, we're pre-revenue on the storage and the supply side until the pipelines are fully built and operational. The infrastructure projects like ours take decades to build, especially in California. And we've got 20 years behind us in terms of the development process, so we're close to deployment on that. But we generate revenues from our ag business, which has been there for 20 years, 30 years, and this company

that we acquired, ATEC, we generate revenue from the sale and deployment of the ATEC filtration systems. And that's going to scale pretty well for us, we believe.

**Jeff Kone, The Wall Street Resource**

Okay. It sounds like it's a pretty regulated business. Is that the case?

**Susan Kennedy, Chairman and CEO of Cadiz**

It's a regulated business in terms of the customers in particular, right? The customers are usually the water agencies who are highly regulated public utilities or, this morning, we announced the sale of some water supply to a housing developer. So, the market is changing, and there's now private interests that are acquiring water assets on their own. But for the most part, it's a regulated industry in terms of the development of the assets and the sale of the assets to these customers, which puts us in a unique position because, again, these projects take 20 years, and we have 20 years behind us in terms of the regulatory process. So we are fully permitted in terms of our water development, our water supply projects, and we are far along the path of the permits in terms of our infrastructure assets.

**Jeff Kone, The Wall Street Resource**

And so who are your customers? I think you said the utilities, but can you name some of them?

**Susan Kennedy, Chairman and CEO of Cadiz**

Sure. It's investor-owned utilities such as Golden State Water, Fontana Water Company that serve various cities and jurisdictions in Southern California. Santa Margarita Water District is a water agency, and there's about 100 of them in California. And so there are a collection of these investor-owned utilities, private developers, and water agencies that are responsible for acquiring and distributing and treating water for the population centers.

### **Jeff Kone, The Wall Street Resource**

So, you know, we've had drought off and on here in California. Does drought help or hurt you?

### **Susan Kennedy, Chairman and CEO of Cadiz**

Well, I think the new reality of what's happening in water is it's no longer the predictable, stable, utility-type service that it's been for the last 150 years. I mean, if you look at the weather patterns, the shift from predictable pattern to erratic, extreme, and totally unpredictable started at about 1980, just in the last three decades. But what it means is we go from extreme drought to extreme violent weather events with atmospheric rivers in a matter of days, if not weeks. I mean, it's that erratic. But the problem is our entire infrastructure around water in the world was designed around snowpack, snowmelt, very predictable patterns where the snow collects and melts in the spring and you catch it in reservoirs, and you distribute it in pipelines and canals that take it to the population centers. Well, they're all built around areas where that's not where the snow is falling anymore. That's not where the rain is falling. So, it's a trillion-dollar problem in every location in the world where they can no longer control and store water resources.

So drought is a reality. It doesn't help or hurt. Drought means that you need more storage because the snowpack is not where your water is going to be stored (and your reservoirs are not where all your water is going to be stored. So you need new storage urgently.

And then the atmospheric rivers are even a bigger problem because you've got massive amounts of water that is the most destructive force on Earth and you need to build places to harness it, capture it, clean it so that it can be available for drinking water for population centers. So it's just the new reality.

### **Jeff Kone, The Wall Street Resource**

And are you doing this all on your own or do you have any partners?

### **Susan Kennedy, Chairman and CEO of Cadiz**

Well, we have some pretty influential investors who have been in the energy space, been in the water space, been in the infrastructure space for years. But we're a public company and our major investor is Heerema International, which is a marine infrastructure group that builds wind farms. They have the largest ships in the world for building wind farms out in the ocean. And they became a large shareholder of Cadiz a couple of years ago and they've been a fantastic partner for us.

**Jeff Kone, The Wall Street Resource**

And then are you acquiring additional water rights, or do you have what you can handle for now?

**Susan Kennedy, Chairman and CEO of Cadiz**

We've certainly looked at them. They're starting to come on the market in ways that may be attractive, but to be honest, we have some pretty valuable water rights at the moment and the game is not in acquiring more water rights. The game is actually building the infrastructure. There is not many people that can build the infrastructure for water.

**Jeff Kone, The Wall Street Resource**

Yeah. It sounds like you've been doing it for some time and if I have this right, things are going to change over there and what the company looks like today might be quite different in a few years. Do I have that right?

**Susan Kennedy, Chairman and CEO of Cadiz**

Well, I'd say first off, this is a very different company than it was 20 years ago. The Cadiz company that I think the market is familiar with was really a project company. We had one big asset, which is our water supply and our aquifer that can hold its storage. We were the subject of, we were going to be acquired by one big water agency 20 years ago because that's the way water infrastructure was built and water is highly political and very challenging to build in California. So when that deal fell apart, the company really held on to its assets, put money into the assets, developed the well field, but it wasn't more than a single project company for about 20 years. Everything changed three years ago when the climate impacts on water supply just made the infrastructure untenable in California, making us an extremely valuable product, company with a product to sell in terms of the ability to provide storage to multiple agencies, but also the acquisition of the pipelines and the filtration company, it turned Cadiz into a more product company that has scalable revenue streams and scalable products for a much broader market. So it's a very different company today than it was even five years ago. So we are now building out the company infrastructure to be able to bring these products to market and scale them.

**Jeff Kone, The Wall Street Resource**

Very good. So capital wise, do you need some major outlays for that or has that already been done?

**Susan Kennedy, Chairman and CEO of Cadiz**

With our partner, Heerema, we've closed a number of financings in the recent past that give us the operating capital we need, the working capital we need as we're racing to bring these projects online. And right now we're in the process of developing project finance, which is water infrastructure is hundreds of millions of dollars in investment. So, we're pretty far along in developing access to the lowest cost of capital for us to build out those projects.

**Jeff Kone, The Wall Street Resource**

So if I'm hearing you right, that's not through, you know, raising additional shares. It's through project financing.

**Susan Kennedy, Chairman and CEO of Cadiz**

Yes, yes. It would make no sense to build an infrastructure project with our cost of capital. So we partner with these public agencies to be able to access the lowest cost of capital. Some cases it'll be municipal financing and other cases it would be a lot of the grants that are available. The federal government is throwing billions and billions of dollars at climate resiliency and clean water access projects and particularly infrastructure projects. And our public agency partners are eligible for all those dollars. So our job is to put together the project finance mechanisms that allow us to access those billions of dollars in publicly available funds that are grants.

**Jeff Kone, The Wall Street Resource**

Okay. And so what do your revenue models look like?

**Susan Kennedy, Chairman and CEO of Cadiz**

Well, I think there's four major revenue streams. It'll be the sale of water supply. For example, we've contracted for 65% of our Northern Pipeline is contracted for and those are water agencies that are purchasing annual supply of water. So per acre foot per year they will pay for water whether it's delivered or not. They'll store the water that they're not using that particular year. And the market generates, our contracts will generate a gross number of about \$1,600 per acre foot per year. And within that, some of that will go to the cost of the infrastructure and approximately \$850 per acre foot per year will be, will come to, will be net to Cadiz.

And to put that in context, we have, our permit allows us to export 50,000 acre feet per year from our water supply under our permit.

So our Northern Pipeline capacity is approximately, it's half of that. It's 25,000 acre feet per year. We have about 16,000, 17,000 acre feet under contract. So 850,000 acre feet a year with an escalator, roughly 5% a year what the market is on the escalator.

So over the term of a 40 year contract, you're talking about \$225 million a year in annual recurring revenue from the water sale just on the Northern Pipeline. Southern pipeline will be the same. It'll probably be a higher amount, but call it, you know, \$850, \$950 net to Cadiz. So we're expecting about \$50 million a year in annual revenue from water sales alone.

Water storage is like, is like owning a major, you know, condo complex with a million units in it. We can store a million acre feet of water and each unit, the market value today is roughly \$1,500 per acre foot of storage. So the agencies would buy space in our aquifer to store their water as they move it around during wet years and dry years. So that's a million acre feet, \$1,500 per acre foot, about a billion and a half in value in terms of the value of that real estate for water storage.

The third revenue stream is the ATEC filtration systems and that is the sale of equipment, basically, and the maintenance of that equipment to these different water suppliers that are distributing water to their customers.

**Jeff Kone, The Wall Street Resource**

The filtration business, is that filtration for municipalities or is that for small housing development? What does that look like?

**Susan Kennedy, Chairman and CEO of Cadiz**

All of the Above, primarily now, water filtration is, there are big companies that do water filtration, right? And they bolt on these big systems for, we're actually installing one for the Central Utah Water District, which is the largest water district in Utah and it's 60 million gallons a day, which is about 50,000 acre feet of water.

It's a pretty big project and we're installing the filtration systems to clean the water and make it potable for distribution to homes and businesses in Utah. What we liked about this company is that we can scale it down. It's the only one we found that we can actually scale down. So we've deployed assets in mobile home parks, in community developments and in small water systems and there are tens and tens of thousands of water systems today that are failing to meet water quality standards because of contaminants in the water like chromium six or nitrates and arsenic that are naturally occurring, but it's very expensive to treat. And so most of the smaller water systems don't have access to technology that is cost effective for them to deploy. So we think we have a really good market niche there.

**Jeff Kone, The Wall Street Resource**

So back to the other side of the business for a second. What are the major input costs in selling water or storing water?

**Susan Kennedy, Chairman and CEO of Cadiz**



I think the major, when it's raining, water is free, right? And so, the value of water is where you can store it and then make it available when there's a drought. And so, the major cost inputs are being able to build water storage. I mean, it takes thousands and thousands of acres to build storage. You can't just build storage anywhere.

And what Cadiz has is a very, very unique location that allows you to store a million acre feet naturally in the ground instead of having to build a massive reservoir that costs billions of dollars in infrastructure to build a reservoir. Our reservoir naturally occurs underground. And so, it's about harnessing the water so that you can keep it there for when it's needed during a drought. Very low cost, comparatively.

**Jeff Kone, The Wall Street Resource**

Yes, it sounds like very high gross margins.

**Susan Kennedy, Chairman and CEO of Cadiz**

Yeah, for our particular project. Because even in other areas where you can store water, it doesn't matter where you're storing water if you can't move it. So if you don't have the pipelines or the canals to move the water out of storage to be able to put it into the pipelines that are serving these population centers, it's very expensive, in the billions, to build the infrastructure, the pipeline. And it takes decades to permit when you're building a pipeline through a population area. So those are the two major inputs to storing and moving water are the infrastructure to hold it and the pipelines to move it.

What we're doing, we will be the first in the world to do it, is by purchasing idle gas pipelines and converting them to carry water, we've got a built-in infrastructure. So, we can actually create the transportation network to move the water at a fraction of the cost that it would take to build a new pipeline.

At Cadiz, it's uniquely located. It used to be a railroad stop for a lot of goods and services coming from Texas out to California. And this pipeline that we bought was part of an oil pipeline network that was built to carry oil from the Santa Barbara coast out to McKamey, Texas to the refineries. And this particular spur that we bought has been unused for about 25 years. It's just been under cathodic protection. But we've got numerous pipelines that cross our property and numerous railroad lines across our property.

We didn't talk about the other revenue streams, but we have land that's available for solar. We're looking at hydrogen development. We've got several proposals to develop hydrogen. Because of the rail lines on our property, we can move these assets. And the rail and the pipelines on our property, we can move water, hydrogen, other assets in a way that other companies can't.

**Jeff Kone, The Wall Street Resource**

So as we monitor the company over the next 12 months, what are some of the events or catalysts that we should look for?

**Susan Kennedy, Chairman and CEO of Cadiz**

Well, I think the most important pivot point for us was earlier this year when we announced the first conversion of... we have option agreements on our water supply for years because everyone knew the resource was there and they wanted access to it. But we are now at the point where the infrastructure is ready. We're shovel ready on the first stages of the infrastructure. And so we closed a number of contracts for water supply. And that occurred in the first quarter of this year. And that's really the gun. Those contracts will be the foundation of our ability to finance the infrastructure development. So that was the key development in the first quarter of this year.

And then as you look to the coming quarters, you'll see additional partnerships with public agencies that are signing up for water supply or water storage. You'll see strategic partnerships to develop the assets in terms of the pipeline assets and some of our land assets. And you'll see, I think, some partnerships in terms of strategic development of our ATEC filtration systems and deployment of those systems.

**Jeff Kone, The Wall Street Resource**

Susan, before we go, is there anything you wish I would have asked you that I didn't? And any big takeaway you want us to know?

**Susan Kennedy, Chairman and CEO of Cadiz**

No, I think we managed to cover it.

**Jeff Kone, The Wall Street Resource**

Thanks for taking the time to share the story.

**Susan Kennedy, Chairman and CEO of Cadiz**

Thank you. Appreciate it very much.

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For audio of the interview, please visit - <https://thewallstreetresource.com/webcasts/>