



Nasdaq: CDZI

September 2024 Corporate Update Call

September 19, 2024

CORPORATE PARTICIPANTS

Susan Kennedy, *Chief Executive Officer and Executive Chairman*

Courtney Degener, *Vice President, Investor Relations*

PRESENTATION

Operator

Greetings and welcome to Cadiz's September 2024 Corporate Update Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation.

I will now turn the conference over to Courtney Degener, Vice President, Investor Relations of Cadiz. Thank you. You may begin.

Courtney Degener

Thank you and welcome to the Cadiz's September 2024 Corporate Update Call, which will feature a status update on the business and project development by our Chairman of the Board and CEO, Susan Kennedy. During the conference call the Company will be making forward-looking statements regarding expectations for future performance and business prospects. Forward-looking information involves risks and uncertainties, and the stated expectations could differ materially from actual results or performance. The Company advises you to read and consider the Company's SEC filings including its Second Quarter 2024 Form 10-Q and 2023 Annual Report on Form 10-K, for a detailed discussion of risk factors inherent to the business and the Company.

The Company undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances that occur after the call.

Now, I am pleased to introduce our Chairman and CEO Susan Kennedy.

With that, I'll pass the call to Susan.

Susan Kennedy

Thank you, Courtney, and thanks everyone for joining us today.

During our initial Corporate Overview Call in May, I talked about Cadiz's evolution - from a company with "one big water project" looking for "one big public agency customer", to a company that is today in the right place at the right time with the kind of water assets that allows us to produce a full suite of water solutions to more customers across a much larger market.

In today's update call, I'll provide a progress report on key milestones and a look ahead for any tailwinds or headwinds in the industry that might impact the company in the near and midterm.

First, for investors who are new to the Company – a quick description of what "key milestones" for Cadiz

look like:

Cadiz is an asset rich company – we have five major assets that alone or in combination can generate more than \$5 billion in cash flows – water supply, water storage, pipeline assets for water conveyance, water filtration technology with our wholly-owned subsidiary ATEC Systems that can remove dangerous chemicals from groundwater like as arsenic, Chromium 6 and “PFAS” or “forever chemicals,” and we own 45,000 acres of land with abundant sun and abundant water resources that we’ve been operating for agriculture for the last 40 years.

In the last quarter we reached a few key milestones –

Most importantly, we signed another water supply purchase agreement with an investor-owned water utility that brings the total amount of water supply contracts for delivery via the Company’s Northern Pipeline to 21,275 acre-feet per year. That represents 85% of the throughput capacity of the Northern Pipeline.

For investors unfamiliar with our water supply assets – Cadiz holds water rights and permits to export 2.5 million acre-feet of water from our ranch to regional water agencies over a 50 year period. That amounts to, on average, 50,000 acre-feet per year over 50 years. Our Northern Pipeline, which the Company purchased from El Paso Natural Gas in 2021, can transport 25,000 acre-feet per year, or half the total yield of the permitted water supply from our project.

Reaching the 85% contracted mark is important because these 40 and 50 year “take or pay” supply contracts will generate the cash flows that support project financing for construction and generate annual recurring revenue to the Company.

I will talk more about the water supply agreements in a few minutes.

Second, in the last quarter our water filtration subsidiary, ATEC Water Systems, signed an additional \$5 million contract for filters for a water agency in Oregon. I will talk a bit more about ATEC in a minute.

Third, we’ve made substantial progress in discussions with a number of public entities regarding formation of a Master Limited Partnership to finance an estimated \$800 million in capital costs for the groundwater banking project. I don’t have a lot of details to share today but we are in the diligence process with a number of large public and non-profit entities for equity investments in the MLP. More on that in a minute.

As a reminder, Cadiz has the only reliable new water supply in the Colorado River Basin and the largest new groundwater storage banking opportunity in the Southwest. With hundreds of miles of pipeline assets, half of which are already in the ground, Cadiz is at the center of the entire Southwestern water network. And, we have what I believe is the most cost-effective groundwater treatment technology on the market

Now, I will provide a few more details on each of those issues –

Throughout 2024, we’ve focused on several important milestones including the execution of water supply agreements, new contracts for ATEC Systems, and progress toward securing project financing in an MLP structure.

As I mentioned, in the last quarter, we signed our fifth definitive agreement for water supply from the Cadiz Water Supply and Storage Project for delivery through our Northern Pipeline. These agreements now represent 85% of the capacity of the Northern Pipeline, bringing the cumulative total acre-feet per year under contract for to 21,275 acre-feet per year out of a total capacity for the Northern Pipeline of 25,000 acre-feet per year.

Today, we are in negotiation with other entities, both public water systems and commercial entities to reserve the remaining capacity of the Northern Pipeline and we are beginning discussions with public water systems for water supply that would be delivered via the Southern Pipeline when that pipeline is constructed. We anticipate that we'll have the Northern Pipeline fully committed by the end of 2024.

The water supply agreements we've signed to date, which are available for review in our SEC filings, represent our expectations of cumulative payments in excess of \$1.2 billion over the life of those contracts generating an estimated gross cash flow of between \$25 - \$35 million per year with estimated net annual revenue to the Company of approximately \$16 million that begins when the Northern Pipeline becomes operational. When both pipelines are fully subscribed and operational, we estimate annual recurring cash flow to the Company from water supply contracts to be approximately \$42 million per year in 2024 dollars and adjusted annually based on the BLS Water and Sewer Index.

These contracts are 40-year and 50-year take or pay contracts, so the cumulative total revenue from water supply over the 50-year life of those contracts is expected to be approximately between \$2 billion and \$2.5 billion.

With regard to revenues from groundwater storage and banking operations, we expect significant interest in reservations for water storage to begin in 2025 and 2026, when our pipelines are operational and negotiations among the Colorado River Basin states about the future of Colorado River water supplies gets real. With climate change, supplies from the River are expected to become even more unreliable making storage critically important.

When fully operational our groundwater storage bank in the Mojave Desert will enable one million acre-feet of storage in Southern California, which is larger than most surface reservoir in Southern California, and be accessible from multiple pipelines interconnecting our groundwater bank with the Colorado River system and the State Water Project system. And our groundwater bank is full – we have hundreds of years of water already in storage – we do not need to wait for the next snowmelt to fill the storage bank – This will allow our groundwater bank in the Mojave Desert to become the largest groundwater banking operation in the Southwestern U.S.

What does that mean? A groundwater banking project that has the only new water supply in the Colorado River Basin means we can not only store imported water, we can lend water, lease water, advance water supplies and trade or exchange water stored at Cadiz with water stored in other groundwater banks or Lake Mead or in Northern California reservoirs.

Our target date for having the groundwater storage and banking online is 2027 to coincide with the conclusion of the Colorado River negotiations.

For investors new to Cadiz who are not familiar with business models in the water industry, the revenue stream for groundwater storage is based upon a per acre-foot reservation fee, kind of like leasing a condo unit in a condo complex. Agencies with water supply to store during wet years would lease space in our aquifer and also pay wheeling rates (like tolling fees) to use our pipelines to move water in and out of storage and pay us administration fees for managing their water in storage.

The market comps for groundwater storage banks in California today is approximately \$1,500 per acre-foot of storage space. So the cumulative gross revenue from water storage over the 50-year life of our permit is estimated to be approximately \$1.5 billion plus annual maintenance fees, plus any wheeling fees. Other groundwater banking operations – such as trading or exchanging water supplies between third parties or providing one-time emergency supplies – are different types of products that would generate additional cash flows over the life of the project.

So, we estimate cash flows from our existing permits for water supply, storage and banking operations to be in excess of \$5 billion.

We are in active discussions now with half a dozen parties interested in providing the equity capital to develop this groundwater bank with us. I will talk about that a bit more when we get to project finance discussion

We're also continuing to build a robust project pipeline for ATEC Water Systems, our wholly owned subsidiary that designs, manufactures and maintains specialized water filtration systems to remove contaminants like iron, manganese, arsenic from groundwater supply. What we really like about the addition of ATEC to our suite of water solutions is that we can pair water filtration with water supply products or water storage in ways that is accretive to both.

Many of you already know, we acquired ATEC's assets in 2022 for \$2 million and forecast ATEC segment operating income in the range of \$3 million to \$3.5 million for 2024 based upon forecasted segment revenues of approximately \$15 million. In the last quarter we announced new awards including a \$5 million contract where ATEC will be manufacturing filter systems for the City of Gresham, Oregon, and three additional sales contracts for iron and manganese filtration systems totaling an expected \$1.5 million in sales revenue. We began shipping filters to fulfill our Utah contract in August and expect to complete shipment of the 320 filter for our \$9 million contract in 2024. ATEC's continued progress adds a lot of confidence to our forecast and we're very optimistic about the future of that new part of the Cadiz business.

Turning to our project financing strategy.

We've developed a number of strategic partnerships and entered into agreements with public agency partners including the County of San Bernardino, that should make the project eligible for a significant share of the federal and state grant funding, which for clean water projects alone is \$55 billion through the Infrastructure Investment and Jobs Act and Inflation Reduction Act. We are actively working with our partners to develop grant applications to access those funds.

As previously disclosed, we are in advanced discussions with parties that would participate in establishing a Master Limited Partnership (or MLP) financing structure to finance the approximately \$800 million of capital required to achieve full operation of the Mojave Groundwater Bank, including both the Northern Pipeline Southern Pipeline. This includes \$135 – \$165 million in estimated costs for the Northern Pipeline conversion, an estimated \$450 million in costs for construction of the Southern Pipeline and an estimated \$100-\$125 million in costs to build out the wellfield and groundwater banking facilities.

We believe forming this MLP entity could be the most advantageous structure to allow multiple public agency partners and investors to act as limited partners and commit equity capital toward the infrastructure costs in exchange for an agreed-upon cash flow share of the expected revenues from storage. For investors unfamiliar with this industry, the MLP structure is typically used for development of pipeline and real estate assets. Cadiz would establish a special purpose entity to act as General Partner and contribute our infrastructure assets to the partnership along with a share of the long-term cash flows from the groundwater bank. In exchange, Limited Partners would commit the funding for project capital costs. The MLP structure is tax efficient and reduces the cost of water to end-users – a win for investors, the Company, and the communities benefiting from clean and secure water supplies.

We have made significant progress over the summer towards our goal of establishing the MLP and securing commitments of Limited Partners to put the infrastructure financing in place. We will provide more details as this process moves forward. But we are optimistic about achieving our goals of having project financing in place this year, beginning conversion of the Northern Pipeline for water delivery in 2026, and having the Southern Pipeline and groundwater storage bank operational in 2027.

Last point before I turn to questions, you may have seen the announcement this morning of the appointment of Cathryn Rivera as our new Chief Operating Officer. Cathryn most recently served for five years in the administration of California Governor Gavin Newsom and she is, I believe she is the most effective operational leader I have ever worked with. I am really excited she's agreed to join the team as

we hit this inflection point in our plans to scale up our operations.

Wrapping up, we will now turn to the Q&A segment, and I'm going to turn it over to the operator to begin by answering questions that have been submitted in advance and then try to get to as many new questions as we can in the time we have.

Over to you.

Operator

Thank you. At this time, we'll conduct a question-and-answer session. We will begin the question-and-answer session by answering, first, previously submitted questions. Live questions may be submitted by using the Q&A icon at the bottom of your screen.

I will now turn the call back over to Courtney to moderate the Q&A portion of the call. Courtney, please proceed.

Courtney Degener

Thank you. Susan, the first question is, as a long-term investor it feels like the last big unknowns are with pipeline construction financing. Can we get adequate financing to complete the pipelines, and what will it cost? Can you elaborate, please?

Susan Kennedy

As I mentioned during my remarks, we think the estimated cost of the construction for the entire project is about \$800 million. We believe that we have the right structure in place with a MLP structure, and we are in discussions with a number of interested parties to come in and they are public entities, nonprofit entities, government entities that can serve as investors but also will be able to attract and make the project eligible for maximum amounts of grant funding that's being offered by federal and state government agencies for projects just like this. So we think we're in the right place and moving in the right direction, and we've very optimistic about being able to secure the capital required.

Courtney Degener

Thank you. Next question: Please tell us more about the CDZIP preferred? What will be happening with it?

Susan Kennedy

The preferreds can be redeemed at par. I think it's in June 2025—and Stan will correct me if I am wrong. When the Company is in a strong cash position, we would expect to redeem those. There's no mandatory redeemable date on the preferred, so it's entirely our option if and when we redeem, but we'll make that decision when the company is in a strong cash position.

Courtney Degener

Thank you. Next question: Are there any administrative hurdle maneuvers left that the environmental lobby can use to delay or derail any of the pipeline projects?

Susan Kennedy

Well, as I've said at every meeting and discussion we've had, I wake up every day since the day I joined the company dreaming of ways that it could be delayed. I can't think of any ways. I cannot think of any ways that it could be delayed at this point.

Courtney Degener

Thank you. With your latest announcement of the northern pipeline capacity at 85% under contract, will you discuss the current status or timeline to completion of this important milestone to reach 100% of capacity under contract? Will achievement of this milestone effectively activate the project financing and grant funding, or what would be the next step?

Susan Kennedy

If there's 21,750 out of 25,000, so there's just over 3,000 acre-feet available left for this firm capacity on the northern pipeline. Reaching 85% is sort of a magic number for us because it gives us the critical mass in water supply contracts that we need in order to be able to support the project financing, so I'm not worried about closing the last 3,000/4,000. There's plenty of interest, and our announcement that we reached 85% generated some interest in moving a little bit more quickly, so I'm not worried about closing that. It's actually started discussions with agencies about capacity that will be available on the southern pipeline, so we're moving in that direction as well.

Courtney Degener

Okay. Thank you. Next question is regarding the MLP structure. Will you elaborate on the MLP structure that we are targeting for project financing, particularly in terms of the partners we've identified and the current stage of discussions that would lead us to ensure financing is committed by the end of 2024?

Susan Kennedy

I can't disclose exactly who we're in discussions with at the moment, but there's been a lot of discussions about the type of entities we've been working with over the past three years. County of San Bernardino is one that actually voted to sign up and be part of the financing entity through the Joint Powers Authority that we established. We've also been working with Native American tribes, and we've been working with a lot of the local communities, the disadvantaged communities that have an interest in water supply. More importantly, they have an interest in seeing the infrastructure built that can serve their area. So we believe we've put together a coalition of public entity partners that have a very strong interest in getting the infrastructure built and they will be able to attract maximum funding that's available through state and federal grant programs.

What makes this different is that in the water world, in the water industry, these types of infrastructure projects are usually built by utilities and the utilities pass their costs on to the consumers, their rate payers, and so they are incentivized to build the smallest assets, the smallest pipelines possible just to carry their water for their customers and sometimes it's hundreds of miles from where the source is to where their customers are, and that process takes many, many years and it's very, very expensive.

This structure, with the limited partners and with these public entities coming in as investors and sharing in the proceeds of the project, it is very cost effective in terms of it doesn't waste a lot of money on borrowing costs for these agencies. But also, it has very attractive returns because they're backed by take or pay contracts. So this is uniquely applied to the water industry, but I think it's very groundbreaking and really opens the door to value engineering the design of the water infrastructure to maximize operation of the assets and the revenues. So I think it's very beneficial to the company to be spearheading this type of structure.

Courtney Degener

Thank you. Following today's executive management announcement about Cathryn Rivera Hernandez as COO, can you please elaborate on your expectations for her role, primary function and any measures of her performance for the newly created position?

Susan Kennedy

Well, I think the title says it all, Chief Operating Officer. We are at the scale point where we've got multiple operations that are having to staff up and scale up simultaneously and I don't know anyone better who can keep the trains running and the plane flying than Cathryn Rivera. It's really going to be running the day-to-day operations of the company, which has a lot of different project development aspects, finance aspects, corporate aspects, our subsidiaries. There's a lot of things going on and this is the first of a number of expansions that I expect we'll be looking at in the near future.

Courtney Degener

Perfect. That leads into a question we received about ATEC, as well. Can you tell us a little bit more about the technology and what are you most excited about with the ATEC system opportunity?

Susan Kennedy

I am not an expert to be talking about the technology, but I know enough to be dangerous. What I was really excited about acquiring this technology because groundwater cleanup is an enormous opportunity. It's an enormous problem. The magnitude of the problem, because of climate change and now communities are dealing more with stormwater than they are with snowmelt and that causes a lot of problems in terms of groundwater treatment to be able to turn that into potable use for drinking water. So this is an enormous, multibillion dollar worldwide problem, and this company had a unique set of assets that we tested on our own ranch because we had elevated levels of Chromium 6 long before Chromium 6 was really on the radar. But it's naturally occurring and this was the most cost effective treatment so we use the same medium to address different constituents of concern. So, iron and manganese, arsenic, Chromium 6, and we designed the filters for that and their system is very low—much lower cost than some of the big operators that are out there. So it gives us access to parts of the market, but it's very, very hard for others to compete in that space. On a standalone basis, it's a really good opportunity for us addressing a very real-world issue in a lot of communities that don't have access to clean water.

But it's also by pairing water treatment with water supply, or even with we have pipeline access, it's an attractant in terms of value add for all these different water agencies that need to figure out how to address Chromium 6 and forever chemicals that are in their groundwater today. So it just puts us in a really good position.

Courtney Degener

Thank you. I am not seeing any further questions, so would you like to make any closing remarks?

Susan Kennedy

I want to thank everybody. I think those of you who have been with Cadiz for a long time, we've got 20 years of project development behind us in the rearview mirror, and we've got a tremendous opportunity in front of us and I think the Company is in the best possible position it could be in, and I'm so excited about what the next 12 months are going to bring. Thank you.

Operator

Thank you. That concludes today's conference. We will now close the call.