



**Nasdaq: CDZI**

**Corporate Overview Investor Call**

**May 16, 2024**

## CORPORATE PARTICIPANTS

**Susan Kennedy**, *Chief Executive Officer and Executive Chairman*

**Courtney Degener**, *Vice President, Investor Relations*

**Stan Speer**, *Chief Financial Officer*

## PRESENTATION

### Operator

Greetings and welcome to Cadiz's Corporate Overview 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 Corporate Update Call. On the call today we have our CEO, Susan Kennedy and our CFO, Stan Speer.

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 2023 Annual Report on Form 10-K filed with the SEC on March 28, 2024, 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 of circumstances that occur after the call.

Now, I am pleased to introduce our Chairman and CEO Susan Kennedy, who first joined the Board in 2021, was then elected Chair in 2022, and appointed to serve as Chairman and CEO effective January 1 of this year. Susan has built a successful career bridging politics, government and the private sector, with particular focus on the energy and water industries, and we are happy to have her at the helm.

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

### Susan Kennedy

Thanks Courtney, and thanks everyone for joining us today. This is the first time in many years that we're hosting a call like this, and I look forward to walking you through the Cadiz of today and what I'm looking most forward to as the CEO.

When I joined the Board a few years ago I felt like I was handed the football on the five-yard line. Twenty years ago, Cadiz was one big water project looking for one big public agency customer at a time when nobody needed water. Today, Cadiz is an asset-rich company with exactly the right combination of water supply, storage infrastructure and treatment technologies to address what I believe is the greatest climate challenge the world will face in the next decade – access to clean water. And because here in the Southwest we're in one of the most water insecure regions of the world, Cadiz is better positioned today than ever before to monetize these assets.

For those of you who don't know me, let me give you a little bit of background on myself. I spent most of my career in politics and government in California as Chief of Staff to Governor Arnold Schwarzenegger, as Cabinet Secretary to Governor Greg Davis, as a commissioner on the California Public Utilities Commission, the body that regulates the state's investor-owned gas, water and electric utilities. I also served as communications director for U.S. Senator, Dianne Feinstein. In those roles I acquired a unique skill set in bringing in the biggest, hairiest infrastructure projects through the financial, political and regulatory gauntlet and driving them across the goal line.

I was responsible for negotiating some of the most complex agreements amongst stakeholder groups, industry leaders, environmentalists, cities, counties, Native American tribes, and developing hundreds of billions of dollars in infrastructure projects for energy, water supply, transportation, telecommunications, etc.

Now, if you're familiar with getting anything built in California, it's no surprise that it takes twenty years to get any major project through the permitting process. And you face years of litigation over the permits once they're issued. That's standard operating procedure. Water without a doubt is the most controversial issue of all in California's famed 'whiskey is for drinking, water is for fighting' words. It involves the greatest number of combatants, stakeholders, politicians and lawyers.

So, for the last few decades, as a company Cadiz was solely focused on trying to find customers for a very large water supply and storage project in the Mojave Desert. One big project looking for one big customer and, like all projects in California that face torrid opposition. Cadiz is different today. We're a different company. And to understand where we are today, it's important to understand two things:

- One, the intrinsic value of the assets we developed since the Company was founded in 1983.
- Two, the context as to what's happening in the water industry around the world today that makes these assets in combination so much more valuable today than at any other time in the Company's history. I'd like to give you a very brief overview on those issues.

The Company's founder spent the first 15 years developing our land and water assets in the early 1980s. They used satellite imaging from NASA to identify areas in Southern California where they believed they would find prolific water resources underground. They began acquiring land, thousands of acres, and knitting these parcels together through land swaps with railroad and the federal government to create Cadiz Ranch, 46,000 acres of mostly contiguous land with prolific natural water resources located in one of the most unlikely places in the world you would expect to find water, the Mojave Desert.

The Company then spent the next 20 years investing in the land, building out the well fields, operating the largest farming operation in the country, vesting the water rights, sloggng through the permit process to allow them to export water supply and successfully defending those permits through many years of litigation.

Today, with our water supply permits secured and successful litigation behind us, we're looking at the 20 years it takes to build any major project in California in the rearview mirror.

But the most important thing the Company did in the last 10 years or so is acquire critical infrastructure assets, hundreds of miles of pipeline, rights of way to build new pipeline, water filtration technology, and we've made strategic capital investments in what we believe will enable us to bring these assets online in an expedited timeframe and build what we believe will be one of the largest water storage and trading banks in the Southwestern United States.

Now, with climate change's recent havoc on water supplies and the acquisition of pipelines and treatment technology that we can integrate with that water supply and storage solution, Cadiz now has what I believe are the most valuable water assets in the Southwestern U.S. and we're in a position to monetize them in ways that, frankly, weren't even possible just a few years ago.

Now, I want to take just a couple of minutes to walk you through the context of what is happening in the water industry today and why our assets are so uniquely valuable.

The entire water industry around the world is facing massive disruption because of climate change. The new reality facing 40 million people in the southwestern United States is that the Colorado River is oversubscribed, in distress, and Lake Mead, the largest reservoir in the U.S., is no longer reliable in severe drought conditions. Thirty percent of Southern California's water supply comes from the Colorado River. Another 50% comes from Northern California through the Sacramento-San Joaquin Delta, which is also in distress. Cadiz's core asset is an aquifer system that flows under our land, part of a 2,000 square mile watershed system covering 1.2 million acres. That's estimated to hold as much as 30 to 50 million acre feet of water and storage today. To put that in context, Lake Mead, the largest surface reservoir in the U.S., 250 square miles, 160,000 acres, has a maximum storage capacity of 28 million acre feet of water. There is more water and storage today at Cadiz than there is in Lake Mead and Lake Powell, two of the largest reservoirs in the U.S., combined.

So, where does the water come from? The watershed system that feeds the Cadiz aquifers and collecting water with snow and rain in surrounding mountains for thousands of years. In fact, it takes 1,000 years for snow that fell in the New York Mountains at the top of the watershed to make its way down to Fenner Gap where Cadiz Ranch sits. So, there's a 1,000-year uninterrupted water supply feeding the aquifer that flows beneath Cadiz Ranch.

Our water rights with permits from the county allow us to withdraw 2.5 million acre feet of water from the aquifer over a 50-year period. We currently use our groundwater for agricultural purposes, but in 2012 we received permits to export 50,000 acre feet of water per year from the Cadiz property and make this new water supply available to communities in Southern California. That's up to the 2.5 million acre feet over 50 years.

The permits to export water were controversial. We went through years of litigation, but they were upheld in court and are fully vested today.

More importantly, the geology of the Cadiz aquifer allows us to import an additional 1 million acre feet of surface water from the Colorado River or potentially the state water project and store it underground in our aquifer without any loss through evaporation.

When our project is fully online, Cadiz will be the largest new groundwater storage bank in the Southwestern U.S. and we believe we are extremely well positioned to address this new climate reality.

Our water bank has many years of water in it. We don't have to pray for snow every winter in order to fill the aquifer. And the truth is, we don't have a water scarcity problem. We have the same amount of water on the planet today that we've had for 4 billion years. Water doesn't evaporate and leave the planet. The problem is snow. Our entire water storage and conveyance system was designed around steady, predictable snowpack and the scary fact is we're losing our snowpack.

For the last 75 years, despite occasional blizzard years, there's been a steady decline in the snowpack in the Rocky Mountains, in both the California Sierras and in the Rocky Mountains. The trendline is not changing. Climate scientists today are suggesting that in 25 years California could lose its snowpack in the Sierra Nevada Mountains. Half of the water supply for California comes from snowpack and snow melt, and the reality is the entire water industry, which was built on billions of dollars in infrastructure investments, is based on a steady, predictable hydrological cycle that no longer exists. Extreme is the new normal.

Since about 1980, the weather cycle has changed from steady going back to like the 1800s, to this completely unpredictable whiplash event from extreme drought to extreme weather in the states of about a matter of months. So, what we see in the future is rain and this is where climate change becomes an infrastructure problem.

We're losing our snowpack in the North because precipitation and the snow melt are now moving to the South. The vast majority of our water reservoir storage was built in the North. So, Northern California where the Sierra Nevadas and the Cascade Mountains are, our ageing water system was designed to capture steady Sierra snow melt, not rain from atmospheric rivers, and flash floods that are today's climate reality. This is an urgent problem happening around the world due to climate change.

Now, when you look at where Cadiz is located and you understand the value of our asset, we have the only reliable new water supply in the Colorado River Basin. We have the largest new groundwater storage bank in the Southwest. We have hundreds of miles of pipeline assets, half of which are already in the ground, that can connect us to the entire Southern California water network, and we have what I believe is the most cost effective treatment technology on the market, and strategically located at the center of one of the most water insecure regions in the U.S., I think you can understand why Cadiz is positioned today to offer a range of solutions across a much bigger market, making Cadiz a very different company today than it was 20 years ago.

Where we are today.

We closed a very important financing in the first quarter with our largest investor, Heerema, providing the Company with working capital that allows us to focus on infrastructure financing, project development on an expedited timeframe.

We announced execution of several water supply agreements with public water systems and one housing developer in Q1. These agreements represent 65% of the capacity of the Northern Pipeline, which is 25,000 acre feet per year, and we're in advanced stages of negotiation with other public water systems to purchase the remaining capacity of the Northern Pipeline.

The water supply agreements we've signed to date, which are available for review in our SEC filings, represent the expected cumulative payments in excess of \$1.2 billion over the life of those contracts with an estimated net annual revenue of approximately \$16 million to the Company that begins when the Northern Pipeline becomes operational. When both pipelines are fully subscribed and operational, we expect net revenues, annual recurring cash flow to the Company from water supply contracts to be approximately \$45 million per year in 2024 dollars, and adjusted annually based on the BLS Water and Sewer Index.

Our 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, we expect to start seeing reservations for storage in about 2026. Maybe earlier, but utilizing groundwater storage is dependent upon having enough pipeline capacity to move water in and out of storage, so we expect reservations for storage to happen closer to the time when our pipelines become operational.

The revenue water 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 pay wheeling rates to use our pipelines to move water in and out of storage during dry years.

The market comps for groundwater storage banks in California today is approximately \$1,500 per acre foot of storage space. So the cumulative total, gross revenue from water storage over the 50-year life of our permit is expected to be approximately \$1.5 billion including annual maintenance fees and wheeling fees.

One of the most important things the Company has accomplished in this last year is developing strategic partnerships with public agencies. We've entered into agreements with a number of 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 made available for climate and water resiliency projects, and we expect to be working with our partners to generate grant applications to access those funds beginning the second half of this year.

Our main focus today is working with those partners to put the infrastructure financing in place along with the grant funding that will support our capital expenditures necessary to bring the Northern Pipeline online. Our target date is 2026 for the Northern Pipeline and the Southern Pipeline online with a target date of 2027.

We're continuing to build out the project pipeline for ATEC Water Systems, our wholly owned subsidiary. ATEC designs, manufactures and maintains specialized water filtration systems to remove contaminants like iron, manganese, arsenic from groundwater supply. We're very bullish on the potential to scale deployment of ATEC as a groundwater—groundwater is a huge growing concern around the world.

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 ATEC segment revenues of approximately \$15 million.

In case you missed it, we announced the award of a new \$5 million contract earlier this week where ATEC will be manufacturing filter systems for the City of Gresham, Oregon outside of Portland.

I think at this point we're going to turn to the Q&A section of the prepared program, and I'm going to turn it over to the operator for a minute and then I'm going to take some—we have questions submitted in advance that we're going to answer those and then try to get to as many new questions we can in the time we have.

### **Operator**

Thank you. At this time we'll conduct a question-and-answer session. We will begin the question-and-answer session by answering previously submitted questions. If time permits, there may be an opportunity to answer questions from the live webcast participants.

You may submit questions by using the Q&A icon at the bottom of your screen. You may need to hover your mouse in the Zoom program for the icon to appear. Thank you.

### **Susan Kennedy**

Thank you. I'm going to go through some of the questions that we've got in advance and be my own moderator here.

**First one: When did you purchase the gas pipeline and does it need to be cleaned or retrofitted to transport water, and how much water can be transported through the pipeline?**

The Company completed the purchase of the 220-mile Northern Pipeline from El Paso Natural Gas in June of 2021. It was originally built for oil. It was cleaned and converted to transport natural gas, but it was never put into service for gas. So, we believe we will be the first in the world to convert a fossil fuel pipeline to transport water. Once converted, the pipeline will be able to carry 25,000 acre feet for water per year across hundreds of miles, including areas of the state that don't have access to reliable water supplies today.

**Any concerns on future political opposition?**

None. There will always be opposition to water projects, but our permits went through a decade of litigation. There are no more appeals available. Also, everything has changed during the last severe drought that crippled the Southwest.

Political opposition to new water supply projects has been toned down quite a bit since the massive drought we had a couple of years ago, and water from the Cadiz project is going to go to serve some of the poorest communities in the state. So the politics around access to clean water have changed dramatically in the last few years, so I don't have a lot of concern over political opposition.

**What are the two or three things stopping you from transporting water today and what are the actions being taken to remove those obstacles?**

My job is to wake up every single day and think about what could stop this project, and then make sure those obstacles don't exist. I would say there's nothing stopping us today. The obstacle course that we're on now is identifying the best infrastructure financing with the right public agency partner so that we can build with the lowest cost of capital and get equipment and materials ordered, some of which have a nine-month lead time and all of which take cash.

I believe we have great public partners and we're in detailed discussions now on a financing structure. Any major infrastructure or project like ours involves a labyrinth of environmental review and permits from beginning to end of construction, and that Cadiz has the most critical permits we need in hand, namely our water supply permits and the ownership of the pipeline asset.

The remainder of the environmental reviews and permits that we will need to convert the gas pipeline to water, import surface water into storage, construct the pumping stations, those are all going to be led by the public agencies that have signed up to be our partners. So we're in standard operating procedure now and the standard permitting process and I don't see headwinds.

**In terms of the construction of the Southern Pipeline, do you require new permits from the Bureau of Land Management, and when do you expect this section of the pipeline to transport water?**

The answer is no, we don't need new permits. We purchased a 99-year lease within an existing right-of-way owned by the Arizona and California Railroad. That will allow us to build large pipelines to connect to the Colorado River in the South. We do not need new permits to build within the railroad's existing right-of-way. We're targeting construction to begin in 2026; with the pipeline online we're targeting for 2027.

**I am new to the Cadiz story. What should I be looking for in the immediate term to understand the progress and the success of the company?**

The most visible sign of progress are the water supply agreements and partnerships that we're entering, which are filed with the SEC or announced in a press release. Most of these agreements take many, many months, even years, to negotiate, and the negotiation happens between agencies and behind closed doors. So by the time you see Cadiz announce a new partnership with a city or a county, or a public agency that signs up to participate in the Cadiz project, it means we're moving the ball forward in terms of getting to development and construction.

The real inflection point for us was in Q1 of this year when we announced the first signed contract with agencies for water supply via the Northern Pipeline. We now have 65% of the Northern Pipeline fully contracted and we're expecting to finish negotiations on the remaining capacity in the foreseeable future. Those are the revenue streams that will support the infrastructure financing.

I think the other mile marker to look for is the ATEC Pipeline. We've won more than a dozen bids in the last year. We just increased ATEC's full segment year revenue guidance from \$12 million to \$15 million. We're very optimistic about the potential to scale the ATEC business. Also, it diversifies our revenue stream.

**When did you acquire ATEC Systems and how does that fit into your portfolio of water supply and storage assets?**

We acquired ATEC as ATEC Systems in 2022. ATEC manufactures filtration systems that treat iron, manganese, arsenic, nitrates, other constituents of concern. So, ATEC for us is a two-pronged growth driver. First, we believe we have the most cost effective standalone solution in the industry and we see substantial accretive value in offering customers and all-in-one solution by integrating ATEC Systems into our water supply agreements.

Second is, as a standalone business segment with a growing project pipeline, ATEC diversifies the Cadiz revenue stream. Some industry estimates say the market for water filtration technology is projected to grow up to \$84 billion by 2030 because of the growing need for safe clean drinking water worldwide.

**What is the addressable market for Cadiz?**

Well, the immediate market for Cadiz water supply is through the water agencies that serve populations in Southern California, primarily in the Inland Empire – San Bernardino and Riverside County. California's Inland Empire and the High Desert regions are some of the fastest growing areas of the state. They're limited in terms of access to existing water infrastructure, and they are ones that have the most benefit from—immediate benefit from the Cadiz project.

Our water banking capabilities will allow us to trade or exchange for water and store water for water rightsholders throughout Southern California and potentially other parts of the Southwest including Arizona and Nevada.

Our ATEC business is scalable anywhere and we're presently focused on serving the western U.S. market – California, Utah, Oregon, etc.

**Can you frame the competitive landscape for Cadiz?**

I'd say today there's no direct competitors to Cadiz. Water supply, storage and conveyance, they're all very location specific markets in terms of supply and demand, and they require physical assets that take decades to build. We have physical assets that, A, can't be replicated, and B, allow us to meet local demand at a lower cost than other water resources that have to be pumped in from hundreds of miles away.

In the water filtration market, there are lots of competitors, especially in the mid system to large system space, but the feedback we're getting is that ATEC is hands down the most cost effective technology on the market and one of the only companies that can scale down to meet demand in small water community systems at a cost that is reasonable. We just did that in the Torrez Martinez Indian Reservation down in the Coachella Valley. We custom-built the systems for that and we showed that it can be done very cost effectively.



**What is Cadiz’s current revenue source and the revenue opportunity by asset?**

Currently we generate revenues from two business segments. The Company’s largest segment is Land and Water Resources. It comprises all activities regarding our properties in the Eastern Mojave, including development of the water project, which is supply, storage and conveyance, and our agricultural operations.

The Company’s second revenue segment is its water filtration technology business, that’s ATEC, which we’ve discussed. It manufactures, services and maintains filtration systems for impaired groundwater resources.

On our ATEC filtration business, as we mentioned earlier, we revised our ATEC segment gross revenue forecast for the year from \$12 million for the full year to \$15 million for 2024.

We will generate revenue from storage and the supply side of our business once the pipelines are built and operational. We’re targeting the Northern Pipeline to be online in 2026, Southern Pipeline in 2027, and accordingly, this is the timeframe when we expect to generate revenues from those segments of the business.

For illustrative purposes, let me explain how the supply contracts work. So, we’ve contracted 65% of the Northern Pipeline to water agencies. They’re purchasing water through an annual take or pay contract for firm supply delivery. The supply contract will deliver gross payments from each water agency estimated to be up to \$1,600 per acre foot per year. Some portion of that \$1.600 payment will go to pay the capital costs of the infrastructure and the O&M costs of operating the pipeline. Cadiz expects to receive approximately \$850 per acre foot per year as its revenue. For context, our permit allows us to export 50,000 acre feet per year from our water supply. So when both pipelines are operational, we’re expecting about \$45 million a year in annual revenue from water supply sales. Those are 2024 dollars. The net price per acre foot to Cadiz will increase annually based upon an inflator, the BLS Water and Sewer Index, which historically has averaged approximately 5% per annum.

Second, water storage is contracted to customers on a per acre foot basis, like leasing units in a condo complex. For example, agencies with rights to Colorado River water would lease space in our aquifer and store their water in wet years and take it out of storage in dry years. We can store a million acre feet of water and the comps in the market today for water storage is approximately \$1,500 per acre foot of storage. Quick back-of-the-envelope calculation: a million acre feet of storage at \$1,500 per acre foot adds up to \$1.5 billion in gross payments for water storage. Agencies moving water in and out of water storage would also pay a wheeling fee for using our pipelines, very similar to you would pay like a toll, a toll road for transporting the water.

Our storage customers or anybody with water rights, typically they’re large public utilities such as local water districts, investor-owned utilities, regional water wholesalers and some large private water rightsholders including Native American tribes.

**Can you talk about Heerema and their role in providing project financing. Can you elaborate on the terms? What do you expect Heerema’s role to be going forward?**

Heerema has been a great partner. They’re our largest investor and together we’ve closed a number of financings to provide the operating capital we need as we’re racing to bring these projects online. We expect them to continue to be supportive. They’re all-in on the Company.

One more minute left. In terms of the Northern and Southern Pipelines, please give us your estimated capital requirements and timeline required to complete construction operational status.

As I mentioned in my prepared remarks, we’re targeting 2026/2027 for the pipelines to come online. The total capital requirements will be in the \$700 million to \$800 million range. We’ve taken a strategic approach

to capital planning and we've partnered with public agencies to be able to access the lowest cost of capital; that will include billions of dollars in federal and state grant funding that's available now. The financing sources will be based upon the resources available to the individual participating agency public agency partners. Most important, there's more than \$55 billion available for clean water climate resiliency projects through the Infrastructure Investment and Jobs Act, and the availability of grant funding and low-interest loans has never been higher. So, our public agency partners are eligible for all of those dollars and we're developing the project finance mechanisms to allows us to access those billions of dollars in publicly available grant funding.

All right, I think that is pretty much the end of our time, unless my team tells me there's more questions, comments. I think we are—anything we did not get to in terms of the questions, we will get to and answer individually as fast as we can over the next couple of days.

With that, I think we will wrap it up.

### **Operator**

Thank you. We will now conclude today's call. Thank you for your participation. All parties may now disconnect. Thank you.

### **Follow-up question submitted post call**

#### **Can you discuss your asset value and what the make up of the assets are?**

If you look at each revenue generating asset we have today – water supply, groundwater banking (storage) capacity, pipelines, filtration technology – the total cash flows that can be generated with these assets over the life of the assets is over \$5 billion. Supply contracts alone can generate \$2 - \$3 billion; Supply contracts plus water filtration can generate additional cash flows. Storage alone can generate \$1.5-\$2 billion. Storage plus wheeling, trading, exchanges can generate additional cash flow as well. When the groundwater bank is fully operational we expect to be able to trade water on a 2:1 or 3:1 ratio, engage in spot market sales, and create new water products – such as hedging instruments, water quality blending products, emergency supplies – (Note-the Bureau of Reclamation offered \$650/AF for emergency supplies to restore Lake Mead water levels in 2022). Plus, we believe we can scale our ATEC business for standalone systems.