Macquarie Infrastructure Corp
Form 10-Q
August 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2018

OR

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

For the Transition Period from _______ to ______

Commission File Number: 001-32384

MACQUARIE INFRASTRUCTURE CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	43-2052503 (IRS Employer Identification No.)

125 West 55th Street
New York, New York 10019

(Address of Principal Executive Offices) (Zip Code)

(212) 231-1000

(Registrant s Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year if Changed Since Last Report): **N/A**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes x No o

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

Large Accelerated Filer x	Accelerated Filer o	
Non-accelerated Filer o	Smaller Reporting Company o	Emerging Growth Company o

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

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

There were 85,370,832 shares of common stock, with $0.001 par value, outstanding at July 31, 2018.

(212) 231-1000

MACQUARIE INFRASTRUCTURE CORPORATION

TABLE OF CONTENTS

Macquarie Infrastructure Corporation is not an authorized deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia) and its obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of Macquarie Infrastructure Corporation.

i

TABLE OF CONTENTS

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this quarterly report on Form 10-Q (Quarterly Report) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements may appear throughout this Quarterly Report, including without limitation, the Management s Discussion and Analysis of Financial Condition and Results of Operations section. We use words such as believe , intend , expect , anticipate , plan , may , will , shoul potential , project and similar expressions to identify forward-looking statements. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results to differ materially from those anticipated in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the risks identified in our Annual Report on the Form 10-K for the year ended December 31, 2017, and in other reports we file from time to time with the Securities and Exchange Commission (SEC).

Given the risks and uncertainties surrounding forward-looking statements, you should not place undue reliance on these statements. Many of these factors are beyond our ability to control or predict. Our forward-looking statements speak only as of the date of this Quarterly Report. Other than as required by law, we undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

ii

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of Macquarie Infrastructure Corporation (MIC) should be read in conjunction with the consolidated condensed financial statements and the notes to those statements included elsewhere herein.

MIC is a Delaware corporation formed on May 21, 2015. MIC s predecessor, Macquarie Infrastructure Company LLC, was formed on April 13, 2004. Except as otherwise specified, all references in this Form 10-Q to MIC , we , us , and o refer to Macquarie Infrastructure Corporation and its subsidiaries.

MIC is externally managed by Macquarie Infrastructure Management (USA) Inc. (our Manager), pursuant to the terms of a Management Services Agreement, that is subject to the oversight and supervision of our Board of Directors. The majority of the members of our Board of Directors, and each member of all Board Committees, is independent and has no affiliation with Macquarie. Our Manager is a member of the Macquarie Group of companies comprising the Macquarie Group Limited and its subsidiaries and affiliates worldwide. Macquarie Group Limited is headquartered in Australia and is listed on the Australian Securities Exchange.

We currently own and operate a diversified portfolio of businesses that provide services to other businesses, government agencies and individuals primarily in the U.S. The businesses we own and operate are organized into four segments:

International-Matex Tank Terminals (IMTT): a business providing bulk liquid terminalling to third parties at 17 terminals in the U.S. and two in Canada;
Atlantic Aviation: a provider of fuel, terminal, aircraft hangaring and other services primarily to owners and operators of general aviation (GA) jet aircraft at 70 airports throughout the U.S.;
Contracted Power: comprising electricity generating assets including a gas-fired facility and controlling interests in wind and solar facilities in the U.S.; and
MIC Hawaii: comprising an energy company that processes and distributes gas and provides related services (Hawaii Gas) and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy in Hawaii.

Our businesses generally operate in sectors with barriers to entry including high initial development and construction costs, long-term contracts or the requirement to obtain government approvals and a lack of immediate cost-effective alternatives to the services provided. Collectively, they tend to generate sustainable, stable and growing cash flows over the long-term.

Overview

Use of Non-GAAP measures

In addition to our results under U.S. GAAP, we use certain non-GAAP measures to assess the performance and prospects of our businesses. In particular, we use EBITDA excluding non-cash items, Free Cash Flow and certain proportionately combined financial metrics. Proportionately combined financial metrics reflect our proportionate interest in our wind and solar facilities.

We measure EBITDA excluding non-cash items as it reflects our businesses ability to effectively manage the volume of products sold or services provided, the operating margin earned on those transactions and the management of operating expenses independent of the capitalization and tax attributes of those businesses.

In analyzing the financial performance of our businesses, we focus primarily on cash generation and Free Cash Flow in particular. We believe investors use Free Cash Flow as a measure of our ability to sustain and potentially increase our quarterly cash dividend and to fund a portion of our growth.

See Management s Discussion and Analysis of Financial Condition and Results of Operations *Results of Operations Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)*

1

TABLE OF CONTENTS

excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics for further information on our calculation of EBITDA excluding non-cash items, Free Cash Flow and our proportionately combined metrics and for reconciliations of non-GAAP measures to the most comparable GAAP measures.

At IMTT, we focus on providing bulk liquid storage, handling and other services to customers who place a premium on ease of access and operational flexibility. The substantial majority of IMTT s revenue is generated pursuant to take-or-pay contracts providing access to storage tank capacity and ancillary services. Contract lengths vary from 30 days to more than ten years.

At Atlantic Aviation, our focus is on attracting and maintaining relationships with GA aircraft owners and pilots and encouraging them to purchase fuel and other services from our fixed based operations (FBOs). Atlantic Aviation s gross margin is correlated with the number of GA flight movements in the U.S. and the business ability to service a portion of the aircraft involved in those operations.

The businesses that comprise our Contracted Power segment generate revenue by producing and selling electric power pursuant primarily to long-dated power purchase agreements (PPAs) or tolling agreements all with creditworthy off-takers.

MIC Hawaii comprises Hawaii Gas and several smaller businesses collectively engaged in efforts to reduce the cost and improve the reliability and sustainability of energy in Hawaii. The businesses of MIC Hawaii generate revenue primarily from the provision of gas services to commercial, residential and governmental customers, the generation of power and the design and construction of building mechanical systems.

Dividends

Since January 1, 2017, MIC has paid or declared the following dividends:

Declared	Period Covered	$ per Share	Record Date	Payable Date
July 31, 2018	Second quarter 2018	$1.00	August 13, 2018	August 16, 2018
May 1, 2018	First quarter 2018	1.00	May 14, 2018	May 17, 2018
February 19, 2018	Fourth quarter 2017	1.44	March 5, 2018	March 8, 2018
October 30, 2017	Third quarter 2017	1.42	November 13, 2017	November 16, 2017
August 1, 2017	Second quarter 2017	1.38	August 14, 2017	August 17, 2017
May 2, 2017	First quarter 2017	1.32	May 15, 2017	May 18, 2017
February 17, 2017	Fourth quarter 2016	1.31	March 3, 2017	March 8, 2017

We currently intend to maintain, and where possible, increase our quarterly cash dividend to our shareholders. The MIC Board has authorized a quarterly cash dividend of $1.00 per share for the quarter ended June 30, 2018. MIC has been structured to provide investors with an opportunity to generate an attractive total return and we intend to distribute the majority of the cash generated from operations by our businesses as a quarterly dividend.

Our board of directors regularly reviews our dividend policy and payout ratio. In determining whether to adjust the amount of our quarterly dividend, our board will take into account such matters as the state of the capital markets and general business and economic conditions, the Company s financial condition, results of operations, indebtedness levels, capital requirements, capital opportunities and any contractual, legal and regulatory restrictions on the payment of dividends by the Company to its stockholders or by its subsidiaries to the Company, and any other factors that it deems relevant, subject to maintaining a prudent level of reserves and without creating undue volatility in the amount of such dividends where possible. Moreover, the Company s senior secured credit facility and the debt commitments at our businesses contain restrictions that may limit the Company s ability to pay dividends. Although historically we have declared cash dividends on our shares, any or all of these or other factors could result in the modification of our dividend policy, or the reduction, modification or elimination of our dividend in the future.

2

TABLE OF CONTENTS

Recent Developments

On July 27, 2018, our subsidiary within Contracted Power segment entered into an agreement to sell 100% of Bayonne Energy Center (BEC) to NHIP II Bayonne Holdings LLC for $656.5 million in cash and the assumption of $243.5 million in debt, subject to adjustment based on working capital and debt balances at the effective date. We will guarantee our subsidiary s payment and certain post-closing indemnity obligations under the purchase agreement. The transaction is expected to close in the fourth quarter of 2018, subject to receipt of required approvals including, among others, from the New York Public Service Commission and the Federal Energy Regulatory Commission. As a consequence, BEC s assets and liabilities are classified as held for sale on our consolidated condensed balance sheet at June 30, 2018.

We anticipate using part of the net proceeds of approximately $650.0 million, after transaction fees and expenses, to reduce debt including $150.0 million outstanding on the revolving credit facility at IMTT. We expect the use of proceeds from the BEC sale to reduce our ratio of net debt to EBITDA (leverage ratio) at December 31, 2018 to less than 4.5 times.

Proceeds not used to reduce debt will be available to fund a portion of our planned growth capital deployments. Our Board will consider options for returning any excess capital to shareholders.

We expect taxable gain from the sale of BEC to utilize the majority of our federal prior year Net Operating Loss (NOL) carry-forwards. However, we expect to be able to offset future federal taxable income with the tax benefits associated with capital deployments.

We are also undertaking a review of strategic options available to us with respect to certain other, smaller businesses in our portfolio. We may, as a result of this review, undertake to sell, or otherwise divest of these other businesses, although we cannot assure you whether, or on what terms, any such transaction(s) will occur.

In 2017, we completed the development of our shared service center to consolidate common back office functions across our businesses. We use an efforts model to allocate costs incurred by our shared services center to each of our operating and Corporate and Other segments. These costs are reflected in *Selling, general and administrative expenses*.

To date, we have realized approximately $12.0 million of savings from our shared services center, of which approximately 65% is related to procurement and 35% is related to headcount reductions. These headcount reductions have been partially offset by increases in *Selling, general and administrative expenses* associated with acquisitions completed in 2017 and 2018 as well as additional functionality that we have added to our shared services center. Savings from our procurement initiative will be reflected in a reduction in *costs of services*, *cost of products sold*, *selling, general and administrative expenses* and capital expenditures and will not be evenly allocated to any individual operating segment.

3

TABLE OF CONTENTS

Results of Operations

Consolidated

Our consolidated results reflect a decrease in the contribution from IMTT primarily as a result of the deferred revenue recognized in 2017 in connection with the termination of a construction project and the decreased contribution from the previously disclosed non-renewal of certain contracts for bulk liquid storage and handling services in late 2017 and early 2018. These factors were partially offset by contributions from an acquisition completed by IMTT in 2017.

Our consolidated results also reflect increases in the contributions from our Atlantic Aviation and Contracted Power businesses. Atlantic Aviation benefitted from increases in GA flight activity, contributions from acquisitions of additional FBOs and the operational leverage inherent in the business. Results for Contracted Power were better than anticipated driven by, (i) the favorable weather conditions in New York City and an increase in generation capacity from the BEC expansion; and (ii) improved operations of certain of our renewable power generation assets from better wind and solar resources and the internalization of the oversight of day-to-day operations of these assets.

MIC Hawaii s results were below expectations primarily as a result of cost increases at Hawaii Gas and underperformance versus expectations on the part of our design-build mechanical contractor. The favorable outcome of the rate case is expected to generate incremental revenue and EBITDA by the regulated portion of Hawaii Gas in the third quarter of 2018 and thereafter.

Results for the second quarter of 2018 also reflect the absence of implementation costs related to shared services and the associated benefit of reductions in procurement costs. The absence of these expenses was partially offset by the cost of advisory services in connection with addressing shareholder matters.

Capital deployed in 2017 into acquisitions by each of IMTT and Atlantic Aviation, as well as growth investments generally, contributed an expected level of revenue and EBITDA to our overall results in the quarter and six months ended June 30, 2018. The 2017 acquisitions performed in line with their respective investment cases and the development of additional power generation capacity at BEC contributed modestly to our consolidated results in the second quarter.

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

Our consolidated results of operations are as follows:

	Quarter Ended June 30,		Change Favorable/ (Unfavorable)		Six Months Ended June 30,		Change Favorable/ (Unfavorable)	
	2018	2017	$	%	2018	2017	$	%
	($ In Thousands, Except Share and Per Share Data) (Unaudited)							
Revenue								
Service revenue	$375,997	$345,045	30,952	9.0	$778,606	$708,849	69,757	9.8
Product revenue	102,083	93,945	8,138	8.7	201,030	181,598	19,432	10.7
Total revenue	478,080	438,990	39,090	8.9	979,636	890,447	89,189	10.0
Costs and expenses								
Cost of services	179,725	147,114	(32,611)	(22.2)	367,195	301,820	(65,375)	(21.7)
Cost of product sales	47,164	40,249	(6,915)	(17.2)	100,549	87,474	(13,075)	(14.9)
Selling, general and administrative	88,927	82,967	(5,960)	(7.2)	175,884	159,919	(15,965)	(10.0)
Fees to Manager-related party	10,852	18,433	7,581	41.1	23,780	36,656	12,876	35.1
Depreciation	61,086	57,063	(4,023)	(7.1)	122,444			