CorEnergy Infrastructure Trust
2013 Fiscal Year Conference Call | March 20, 2014
Prepared Remarks

Operator: Good afternoon ladies and gentlemen and thank you for standing by. Welcome to the CorEnergy Infrastructure Trust 2013 fiscal year earnings conference call. At this time, all participants are in listen-only mode. Following the formal presentation, instructions will be given for the question and answer session. Should anyone require assistance on the call today please press the star followed by the zero. As a reminder this call is being recorded. At this time I would like to turn the conference over to our host, Katheryn Mueller, Investor Relations for CorEnergy. Ms. Mueller, you may now begin the call.

IR: Thank you and welcome to CorEnergy Infrastructure Trust's fiscal year 2013 earnings call. I'm joined today by CorEnergy Chairman Rick Green, CEO and President David Schulte, and Treasurer and Chief Accounting Officer Becky Sandring. An audio replay of our conference call and information included in our press release issued Monday as well as the presentation materials for this call are available at corenergy.corridortrust.com.

We would like to remind you that statements made during the course of this presentation that are not purely historical may be forward-looking statements regarding CorEnergy's or management's intentions, estimates, projections, assumptions, beliefs, expectations and strategies for the future. All such forward-looking statements are intended to be subject to the safe harbor protection available under applicable securities law. Because such statements deal with future events, they are subject to various risks and uncertainties and actual outcomes and results might differ materially from those projected in the forward-looking statements.

Important factors that could cause actual results to differ materially from those in the forward-looking statements are discussed in our filings with the SEC. These documents can be accessed through the investor relations section of our website. We do not update our forward-looking statements.

At this time I will turn the call over to CorEnergy president and CEO Dave Schulte.

Dave Schulte: Thank you and welcome to CorEnergy's fiscal 2013 earnings call.

CorEnergy delivered another year of stable performance, reflecting the quality of our assets and providing our shareholders with reliable cash dividends at a growing rate. Our investments in pipelines and electric transmission provide us with stable, contracted revenues supporting our distribution.

What I want to focus on today is how we intend to grow that distribution and our three means of doing so:

i) Internal contracted revenue growth
ii) Capital funding for projects that we own today
iii) Capital funding for new projects which we can buy or build for our tenant's use (which will only be done if accretive to our long-term growth prospects)

Now, when you combine the low-risk, long-term contracted cash flows in our portfolio with the growth potential from our positioning in the energy sector, we believe CORR offers investors a compelling opportunity to gain access to U.S energy infrastructure assets in a transparent tax-efficient vehicle (with a 1099 that can be owned in any account), and we will highlight those concepts in our remarks today.

Slide 3: CorEnergy has come a long way in its short history. In June of 2012, we became shelf eligible, providing a path to capital formation to start our REIT financing in earnest. At the end of

2012, we completed the transformational acquisition of a liquids gathering system in the Pinedale Anticline and executed an operating lease with Ultra Petroleum. We built out our management team in 2013, and that effort has resulted in our ability to source and consummate additional transactions, including two more since year-end.

Our other 2013 accomplishments include:

1) Increasing annualized dividend guidance. We went from 44 cents per share in 2012 to 50 cents per share annualized in 2013. Our Board of Directors confirmed their intent to agree to management's recommendation to increase the dividend to 52 cents for 2014 – a 4% increase of the prior year run rate and an 18% increase over our run rate as a BDC.
2) We established a $20 million line of credit, of which we have approximately $5 million immediately available to provide short-term acquisition financing if need be.
3) We made a formal election to be treated as a REIT for the 2013 tax year.
4) Lastly, we expanded our asset platform and opportunity set with two new transactions subsequent to year-end. We funded the acquisition and upgrading of a petroleum products terminal facility on the West Coast, and provided acquisition and construction funding for three salt water disposal properties in Wyoming's Powder River Basin and Green River Basin.

Now, turning to our portfolio of assets for concrete illustrations of our strategy in action.

Slide 4: This slide depicts the assets we currently own and measures each asset against the investment criteria we set out. As you can see, all of these investments and their operating characteristics are consistent with our target criteria, which we utilize as a risk mitigation strategy in putting our portfolio together.

Starting with the Pinedale LGS – it has 14 years of remaining lease contract, providing reliable revenue for CORR with potential rent growth through CPI adjustments and volume participation features. The CPI adjustment will contribute to 2014 revenue, allowing us to be patient in our expectations for volume growth. This contract illustrates the low direct commodity price sensitivity of our revenue stream supporting our dividend payout. We would expect to pay out any meaningful CPI based growth, but we also consider participating revenue to be additive to our coverage – and will only be paid out if it deemed sustainable. But with CPI escalation alone, our rents have the potential to increase significantly over the next 14 years.

EIP and Mowood are utility based assets and they also offer potential for upside. The EIP lease had a fair value purchase option in favor of PNM, which resulted in our realization of a 7% total return over the life of this low-risk investment. Not a lot of upside, but very low volatility.

Omega's sales revenue was higher in 2013, largely attributable to overall cooler temperatures and therefore, higher gas volumes in 2013 as compared to 2012. Mowood also had 15% higher operating results than originally expected due to higher margins from several construction projects that were completed during the year. These construction projects result in added assets on which we earn fees, representing incremental growth potential.

The Portland Terminal has ample storage capacity in a desirable west coast location. We have a long-term lease with a fixed base rent payment plus participation in volume growth, and we are funding the upgrading and optimization of the facility. Our lessee, Arc Terminals, who is in charge of the project, has a track record of successful value creation in the terminalling business and you can read more about their history in their SEC filings.

Our newest asset is the secured funding for Black Bison, which provides water disposal services to upstream companies. While well volumes are less predictable in this business, our structured financing provides us with 10 years of regular payments and increases based on activity levels at the well sites. Water disposal is an economically critical activity for production from shale, and is the same driver underpinning the Pinedale LGS system – moving water in an environmentally sensitive manor is required activity for production of oil and gas.

Slide 5: On the next slide…

We highlight the successful completion of our two most recent transactions – the Portland Terminal and Black Bison. In mid-January we raised capital efficiently to finance the $40 million dollar acquisition of the Portland Terminal Facility. We also are funding a near-term optimization project in the range of $10 million. This asset is in our sweet spot of sizing, where we were able to structure long-term lease, with flexible terms to meet the needs of our tenant, while providing upside in the form of participating rent. Although we have an ownership interest in the GP of our tenant, we want to assure our investors that we provided a competitive financing option for them, and that the other owners of the GP are sophisticated energy companies/funds, all of which are disclosed in Arc Logistics' public reports.

In March, CorEnergy closed a transaction to finance Black Bison's acquisition of salt water disposal properties and related capital improvement projects. The financing will be secured by three salt water disposal properties serving oil and gas producers in Wyoming's Powder River Basin and Green River Basin. CorEnergy's 10-year secured financing is a facility initially sized at $11.5 million and has base interest of 12 percent per annum, escalating at 2% per annum. A variable interest component initiates after the first year and is contingent on volume growth. Additionally, the Company purchased a 15 percent equity option in Black Bison, enabling that company to retain control, accounting and tax benefits of ownership of this network of related assets. Black Bison's opportunity set provides another enhancement to CORR growth prospects as we hope to finance their future growth.

That concludes our update on our portfolio of assets. I will now take a step back to reflect on the broader market opportunity available to CorEnergy.

Slide 6:
On slide 6 you will see what we think is a significant driver of future growth. The renaissance in the energy sector currently underway in North America is depicted on this map. There are vast oil and gas production regions in dark green and light green, which are occurring in new areas not previously exploited. The capital necessary to support the moving of that production from where it is found to where it used is significant, as are the pipeline networks illustrated by the arrows. Our colleagues at Tortoise Capital Advisors project $100+ billion in MLP, pipeline and related projects through 2016. In this capital thirsty market, we provide a differentiated funding source for companies that want to retain control over their infrastructure, but prefer to dedicate their capital to higher returning projects.

The Portland Terminal and Black Bison's salt water disposal assets are examples of assets that provide critical links in the supply chain. The Portland Terminal is capable of receiving, storing and shipping petroleum products from truck, rail and shipment points. The Black Bison water disposal assets are necessary parts of the production of the commodity and need to exist as long as the wells and fields are producing oil and gas. Both of these assets provide CORR with long-duration cash flows and participation features, providing visibility on dividend growth and opportunities for additional capital expenditures (for us to fund for the continued optimization of those assets).

With that, I will turn the presentation over to our Chief Accounting Officer, Becky Sandring, for an overview of our financial results.

Becky Sandring, Slide 7: Thank you, Dave. This week we filed our 10-K and issued a press release highlighting our financial results for the fiscal year ended December 31, 2013. The financial information presented in the 10-K should be considered in its entirety. For purposes of this call, we have provided you with a few key financial metrics that we think will be helpful to you in evaluating CorEnergy's performance going forward.

Because a majority of the company's assets are now REIT-qualifying, management believes that non-GAAP performance measures utilized by REITs, including Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO"), also provide useful insights into CorEnergy's operational performance. FFO for the year ended December 31, 2013 totaled approximately $13 million dollars or 54 cents per share. AFFO for the year ended totaled approximately $12.7 million dollars or 52 cents per share. These measures are after payments made to our non-controlling interest, so are applicable to our common shareholders.

In the MD&A we have provided results from operations in a revised format that management believes provides additional information related to the Company's operational performance.

Turning to the pro forma column on slide 7. We have assumed the completion, as of January 1, 2013, of the Portland Terminal acquisition. The pro forma column includes the purchase of the Portland Terminal Facility, execution of the Portland Lease Agreement, and the sale of 7.5 million shares of our common stock, which includes shares issued in the over-allotment option. On a pro forma basis, FFO totaled approximately $18 million dollars or 57 cents per share, and AFFO totaled approximately $17.5 million dollars or 56 cents per share.

Due to a shift in our calendar year-end, a fourth quarter quarter dividend of 12-and-a-half cents was declared on January 3, 2014. Going forward, we anticipate making four dividend payments in each calendar year starting with 2014.

Slide 8: The graphs on Slide 8 showing total revenue and dividend distributions are depictions of CorEnergy's recurring, sustained performance quarter over quarter. With privately held investment securities now representing less than 10% of our asset portfolio, we believe that in 2013 sequential comparisons, rather than prior year comparisons, are more relevant to assessing dividend payments. The fourth quarter dividend was again, supported by steady and recurring revenue streams from our asset portfolio. The graph showing total assets illustrates the growth of our asset portfolio. The increase in 2012 and pro forma 2014 are results of our Pinedale and Portland acquisitions. We continue to maintain a conservative leverage range of 25 to 50% of total assets, which we expect to help fund our target 8 to 10% hurdle rate on invested capital.

And with that overview, I will turn it back to Dave to conclude the presentation and lead us into the Q&A.

Slide 9: I will now turn to the slide entitled "Overheard in the Corridor". I hope to use this opportunity to give you a sense of what is on management's mind and set the backdrop for 2014.

With two transactions completed in the last two months it is important to highlight how and why these particular assets illustrate the market potential for CorEnergy.

The assets we are financing are critical pieces of the energy value chain, which is shown here. On the left side of the diagram, you will see a ship, offshore oilfield, onshore oilfield and a gas field. I just want to point out where our assets are located on this chart. The Arc Terminals/Portland Terminal would be representative of the storage tanks that service the ship and pipeline on the top part of the chart. On the oilfield side, you will see that there are oil-producing wells and then on the gas field side, gas-producing wells. Both the Pinedale LGS and the Black Bison operations serve operators in those fields. If you remember the map we showed earlier, those are very large areas that demand a tremendous amount of capital.

We also own Mowood, a utility, which would be on the right side of the chart along with EIP, a transmission line. The amount of infrastructure assets necessary to support the upstream growth in the United States generates ripple effects on asset development needs, almost all of which could be characterized as real property assets under current REIT rules. By attaching long-term leases to those assets, we are able to identify and develop long-duration predictable cash flows with multiple growth opportunities serving those assets.

Slide 10: On slide ten, our enterprise value at December 31, 2013 was approximately $252 million, but giving effect to the transaction we completed in January, our enterprise value is now approximately $286 million. This represents a 15 percent increase in enterprise value over the third quarter, of course, giving effect to the equity offering.

The dividend yield of CorEnergy was approximately 7.3% as of December 31, 2013 and 7.7% as of March 2014, significantly higher than the NAREIT Equity REITs Index, the Dow Jones Utilities Average Index, and the S&P Global Infrastructure Index.

These benchmark yields include growth expectations from widely-held institutional investors, and we have tried to illustrate on this call how we have derived our growth: i) 1% to 3% solely from contractual rent increases, through escalators and participations that I mentioned, ii) we get added growth from construction-based financing on assets we already own, and iii) we augment all of that from new assets which are accretive to our existing shareholders.

When we add growth to our dividend rate and compare it to other similarly risked assets, we believe CORR offers investors a compelling return opportunity.

Slide 11: With that, I'd like to open the line to questions. Operator?