Tortoise Capital Resources Corp.
2012 Third Quarter Conference Call
October 8, 2012
Prepared Remarks

Operator: Good afternoon ladies and gentlemen and thank you for standing by. Welcome to the Tortoise Capital Resources 2012 third quarter 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, Ms. Rachel Stroer, Investor Relations for Corridor InfraTrust Management. Ms. Stroer, you may now begin the call.

Rachel Stroer: Thank you and welcome to the 2012 third quarter earnings call for Tortoise Capital Resources Corp. I'm joined today by David Schulte, CEO and President and Becky Sandring, Treasurer and Chief Accounting Officer. An audio replay of our conference call and information included in our press release issued today are available at www.tortoiseadvisors.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 TTO'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 including the Annual Report on Form 10-K. These documents can be accessed through the investor relations section of our website. We do not update our forward-looking statements.

I'll now turn the call over to David Schulte, who has been Chief Executive Officer of TTO since its inception. He is also a Managing Director of Corridor InfraTrust Management and a founder, Managing Director, and investment committee member of Tortoise Capital Advisors.

David Schulte:

Thank you for joining our call today. Tortoise Capital Resources Corp. (TTO) continues to execute on is strategy to become a Real Estate Investment Trust (REIT) that invests primarily in energy infrastructure assets. As a reminder, TTO is externally managed by Corridor InfraTrust Management, who has been given the mandate to originate REIT-qualifying energy infrastructure investments for TTO. As an asset management company, Corridor is owned by its management team, Montage Investments, and Tortoise Capital Advisors (TCA). TCA supports our efforts with market research, investment screening, and by monitoring our current public and private securities, including serving as observers or board members for our private company holdings.

The sale of High Sierra to publicly traded, NGL Energy Partners (NYSE: NGL) for cash and units had a major impact on our performance last quarter. Thanks goes to the TCA team and our co-investors for their perseverance through the private equity cycle with the company to a successful exit. Although we still hold NGL units, we believe the sale will ultimately provide TTO with a return well within the target range of our initial expectations for the High Sierra investment and are pleased with these results. We hope to see our other private holdings matriculate to provide similar benefit to our shareholders in coming years. The sale also creates additional liquidity in our portfolio, with less than 20% of total invested assets now held in private securities, VantaCore and Lightfoot. The public MLP securities provide us a source of funds for future real property asset acquisitions, while maintaining a stable distribution for our shareholders.

As a postscript to the High Sierra investment, we first met the High Sierra team in 2005 before they completed their first acquisition. At that time due to TCA's lack of a suitable funding source we referred them to their initial private equity investors. Subsequently High Sierra became the largest investment in TTO, our private investment vehicle. As a publicly traded BDC, TTO used distributions from High Sierra and our other investments to satisfy public market investors' requirements of current yield for a portion of their return. In recent years many of our investments including High Sierra were unable to provide us with distribution certainty, creating challenges for TTO to provide a predictable distribution to shareholders. This in turn led investors to look to NAV as the best indicator of value potential for TTO. Since our year-end 2011, thanks to the successful exit from High Sierra, our stockholders' equity has increased approximately 10%, plus we have paid out a distribution of approximately 4%. This has been a very solid year of performance for TTO, while positioning us to execute on a lower volatility strategy.

Our current strategy is to target acquisitions of new assets on terms that enhance our distribution stability and provide visibility of modest distribution growth. We believe that in today's market the ability of a company to provide reliable distributions will be rewarded by investors. We believe this return profile is consistent with expectations of infrastructure investments, and competitive with other REITs and utilities, broadly. If we are successful, we believe that our distribution will be rated as lower risk, and therefore our investors will have a better opportunity for capital appreciation than if we stayed the course in private equity.

Ultimately we believe that the REIT structure will offer investors transparency to the cash flow of the underlying assets, tax efficiency, and will be suitable for investors who desire the stability of energy income equities, but prefer to avoid the character of income and other compliance challenges posed by K-1's that come along with owning partnerships. The structure is also suitable for those investors who prefer not to invest in closed-end funds, such as institutions with mandates that do not permit such structures.

REIT Conversions

I wanted to mention the recent trend of companies converting to the REIT structure. A number of companies have recently announced their expected conversions (Iron Mountain and Equinix Inc.) and some have already successfully made the transition (Weyerheauser and American Tower). Although none of the companies are focused on energy infrastructure, there are some key considerations that are worth mentioning.

Generally companies have decided to convert to a REIT because of limited investment opportunities under their existing structure, because the cash flow generation capability of their business is fairly predictable, because of the tax efficiencies available to REITs, and because the IRS has continued to broaden the type of assets that qualify for inclusion in a REIT. These are all consistent with TTO's decision to make the REIT strategy transition.

The trend of new companies converting to a REIT is providing increased investor attention on specialty REITs, where we believe TTO will be well positioned in the emerging category of infrastructure assets, as opposed to traditional commercial and residential real estate.

TTO's transition in strategy, although similar, is not necessarily comparable to the recently announced REIT "conversions". Most of these companies own REIT qualifying assets and are converting their legal and tax structures to attain the tax efficiency. TTO on the other hand is seeking to acquire REIT qualifying energy assets. Compared to the lengthy timeline of "conversion" companies, we believe we are on track to meet our REIT goals with our current pipeline of potential acquisitions.

Pipeline

We are at various stages of diligence and discussions with owners of quality assets. We also have initial inquiries from asset owners that add depth to our pipeline in the future. These assets include traditional energy production support, such as pipelines and storage facilities, electric distribution to and from energy producers and end users, and renewable assets where portions of the infrastructure satisfy REIT criteria. Our ability to fund these projects is based upon the liquid assets on our balance sheet, potential leverage on the projects themselves, and access to equity capital markets. We will endeavor to only issue equity when the proceeds are used to grow the long-term distribution for all shareholders. This is the model that we have executed successfully across the Tortoise platform of investment companies, and the model used by the most successful MLPs and REITs.

I will next turn to an update of our private holdings.

Private Portfolio Update

The fair value of VantaCore Partners LP (VantaCore) increased $1,503,679, or approximately 16 percent, as compared to the fair value at May 31, 2012. The increase is attributable to VantaCore's continued improved performance, mostly driven by the incremental results of Laurel Aggregates, as well as the success of its cost cutting initiatives and the price increases that have gone into effect. Consistent with its quarter ended March 31, 2012, VantaCore was unable to meet its minimum quarterly distribution in cash for its quarter ended June 30, 2012. Therefore, the common and preferred unit holders elected to receive their distributions as a combination of $0.30 per unit in cash and the remainder in preferred units. TTO received approximately $338,000 in cash and 12,613 additional preferred units during the three month period ended Aug. 31, 2012.

The fair value of Lightfoot Capital Partners (Lightfoot) at Aug. 31, 2012 increased by $60,729 as compared to the valuation at May 31, 2012, driven by improved performance. For the second quarter of 2012, Arc Terminals paid a full distribution to Lightfoot. Lightfoot in turn declared and paid a quarterly distribution of $0.12 per unit in September of 2012, or approximately 64 percent of the total amount it received from Arc. The remainder was retained by Lightfoot for outstanding due diligence costs should a potential acquisition not close. If the transaction closes, Lightfoot is expected to distribute the previously retained amount.

TTO's wholly owned subsidiary, Mowood LLC is the holding company of Omega Pipeline, LLC ("Omega"). Omega's results for the first nine months were moderately higher than originally expected as the base business realized higher margins. In addition, revenues from several construction projects were recognized in the third quarter, which made a significant contribution to overall year-to-date results. Omega anticipates that full year results may be higher than planned, as the base business is expected to achieve stable results, and additional revenues from construction projects are expected to be recognized prior to year-end.

I will now turn the call over to Becky Sandring, Treasurer and Chief Accounting Officer of TTO for a discussion of TTO's financial results. Becky?

Becky: Thanks Dave.

Financial Summary

Friday evening we filed our 10Q and this morning issued a press release highlighting important financial information. The 10-Q reports TTO's third quarter 2012 financial results. Comparable prior year financial statements presented in the 10-Q, should be read in conjunction with the Management's Discussion & Analysis, where supplemental information is provided on Mowood's performance.

Items on the consolidated statement of income for the period ended August 31, 2011 have been reclassified and aggregated to conform to the presentation of results of operations for the period ended August 31, 2012. There was no impact to net income or earnings per share. Due to our change in strategy, income from investment securities is now reported in other income. Components of cash flows for the period ended August 31, 2011 have also been reclassified and aggregated to conform to the presentation of cash flows for the period ended August 31, 2012.

The shareholders equity per share was $10.91 as of August 31, 2012, compared to last quarter's $10.47 per share. The increase was due in part to the sale of High Sierra Energy and increased valuations for the remaining private securities, net of increased deferred tax liability for the quarter. The legacy public and private securities portfolio is still subject to fair value measurement on a quarterly basis and makes up a majority of our total shareholders equity per share. As a reminder, we, along with our independent valuation firm, review all of our private company financial statements as well as other meaningful information in arriving at fair value.

The fair value of the investment securities portfolio at Aug. 31, 2012 was $76.8 million, with $19.5 million of private securities and $57.3 million of publicly-traded securities. TTO's total cash was approximately $11.8 million as compared to $3 million last quarter. During the quarter the composition of the portfolio changed, with publicly-traded securities now accounting for 59% of invested assets, excluding short-term investments as of Aug. 31, 2012.

Distributions

Until we adopt other REIT cash flow metrics, we believe the following amounts, which are provided in the 10-Q financials and Management's Discussion and Analysis, are helpful in evaluating, and predicting, whether TTO is capable of earning its distribution. For this quarter we reported investment securities distributions received of $940,000, net an operating loss of $213,000 plus depreciation of $247,000 totaling $974,000. As new owners of NGL, we were entitled to one-third of the NGL distributions for NGL's fiscal quarter ending June 30, 2012 and expect to receive the full NGL distribution in the next quarter.

We paid a third quarter distribution of $0.11 per share to shareholders of record on August 24, 2012 totaling $1 million. We are confirming our guidance that we expect to pay not less than $0.44 annualized, from economic earnings. We expect that receipt of the full NGL distribution next quarter will sufficiently cover our annualized distributions to shareholders.

With that I will now turn the call back to Dave Schulte for final comments

David Schulte: Thank you Becky.

Last week TTO filed an 8-k announcing that David Haley was resigning from his role as Senior Vice President due to personal reasons, effective last Friday, October 5th. David has also resigning from his role as Director at Corridor. On behalf of the Tortoise and Corridor team I want to thank David for his service as both a member of the management team and an officer of TTO. We wish him the best in his endeavors.

With that, we will close the formal presentation. Operator could you now open up the lines for questions?