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FTAI - Q1 2016 Fortress Transportation and Infrastructure Investors LLC Earnings Call

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the Fortress Transportation & Infrastructure Investors LLC first quarter 2016 earnings conference call. All participants are in a listen-only mode. (Operator Instructions). As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Alan Andreini. Sir, you may begin.

Alan Andreini - *FTAI - IR*

Thank you. I would like to welcome you to the Fortress Transportation and Infrastructure first quarter 2016 earnings call. Joining me here today are Joe Adams, our Chief Executive Officer, and Jon Atkeson, our Chief Financial Officer. We have posted an investor presentation in our press release on our website which we encourage you to download if you have not already done so. Also please note that this call is open to the public in listen-only mode and is being webcast.

Before I turn the call over to Joe, I would like to point out that certain statements made today will be forward-looking statements. These statements by their nature are uncertain and may differ materially from actual results. We encourage you to review the disclaimers in our press release and investor presentation regarding forward-looking statements and to review the risk factors contained in our quarterly report filed with the SEC.

Now I would like to turn the call over to Joe.

Joe Adams - *FTAI - CEO*

Thank you, Alan. To start the conversation, I am pleased to announce our fourth dividend as a public company and our 19th consecutive dividend since inception. The dividend of $0.33 per share will be paid on May 31, based on a shareholder record date of May 20. We remain committed to this dividend and there is nothing in this past quarter or ahead that we see, which places the dividend in question. In fact, as we continue to deploy capital at attractive levels in aviation and make progress at Jefferson Terminal, our confidence in both the dividend and our business model grows.

In addition, we announced last night that our board has authorized a $50 million stock repurchase plan and as we do with all of our capital allocation decisions, we will be opportunistic and prudent with our purchases. Having said that, at the current level and with the progress we have made we believe the price of our stock to be a compelling value. While the new investment pipeline remains extremely robust, this gives us another way to deploy capital at attractive prices in assets we know very well.

Let me start and give you an overview for the quarter before going into the numbers and into detail on the respective areas. I love our aviation business still, and we continue to deploy capital at attractive levels. The market opportunity for older aircraft and engines remain strong. Our portfolio is growing as we had hoped, while returns are meeting or exceeding our expectations. The market today for older aircraft continues to expand due to rising global traffic and low fuel prices. We have a unique business model run by a team with the skills, relationships and engine knowledge, which is perfect for this environment and our strategy, which as you know is quite different from most of our public peers.

Offshore remains challenging to be sure, and we have good assets and we know the market will recover eventually. It feels like the industry has hit the floor and interestingly now we are seeing some highly distressed investments. In the meantime our ships will be used for necessary maintenance on existing fields and short-term jobs with subsea installations.

Our investment in containers, which totaled approximately $40 million in book equity at December 31 is now down to $10 million in book equity as of March 31, 2016. During Q1, as we previously announced, we sold a finance lease portfolio, which generated approximately $25 million in cash net of debt for a small book gain and an IRR on our investment of approximately 16%. In addition, we sold a second container portfolio during Q1 for proceeds of approximately $16 million, which netted us cash of approximately $5 million, another modest book gain and again an IRR of approximately 16%. With this last sale, FTAI's remaining container asset is a 51% interest in a joint venture that owns approximately 96,000 units.

With respect to Jefferson, we have made substantial progress on three new deals, one an ethanol terminal, two, crude storage, and three, refined products to Mexico. We anticipate finalizing one or more of these deals in the very near term. Our confidence in this asset and its long-term earning potential to FTAI is very high.

Central Maine and Quebec Railroad -- the terrific turnaround story continues here. While many railroads in the US are experiencing revenue declines, we had double-digit carload and revenue gains year-over-year, and the railroad was a positive contributor to FAD in both Q4 and in Q1 of this year.

Repauno, we continue to make good progress during Q1 and are still shooting for a late Q2, early Q3 closing. We have four well-defined development projects underway and are actively negotiating with counterparties on an auto import/export terminal, an energy logistics terminal, industrial warehouse parts, and a solar project.

Let us now turn and talk about the financials. A key metric for us continues to be funds available for distribution or FAD. During the quarter total FAD was $33 million, made up of $46 million from our equipment leasing portfolio, negative $5 million from our infrastructure investments, and negative $8 million from corporate. Both infrastructure and corporate FAD improved from Q4. Our equipment leasing FAD was comprised of FAD from aviation of $23 million, which includes the sale of one engine for a gain of $1.3 million with a FAD contribution from that of $5 million. Offshore energy was negative $6 million of FAD in large part due to the Pride being off charter for those three months, and onetime costs primarily associated with relocating the Pride to Malaysia. Shipping containers contributed $28 million positive of FAD due in large part to the direct finance lease portfolio sales.

Our infrastructure FAD continues to be negative, but less so than in Q4. We are making good progress at both Jefferson and CMQR as it relates to FAD.

Leasing -- let me take you through the progress we made this quarter as it relates to our leasing portfolio. Our aircraft and engine leasing portfolio continues to perform well. As of March 31, 2016 our aviation segment is our largest with approximately $406 million of book equity, which includes 18 aircraft and 47 engines. We continue to see strong demand for aviation assets and our utilization has remained high.

As of April 30, 2016, our current overall utilization is approximately 83%, which reflects aircraft utilization of 96% and engine utilization of 52%. Engine utilization is consistent with the prior quarter and as you may recall we target engine utilization between 50% and 75%. During Q1 of 2016 and so far this quarter, we have executed multiple aircraft lease extensions, which have increased our average remaining aircraft lease term to 36 months as of April 30, 2016. Our average remaining lease term on our engines is 15 months, up slightly from Q4. We sold one engine in the quarter for a gain of $1.3 million, and as I have noted in the past, we do intend to take advantage of our strong sourcing capability and realize gains periodically through asset sales.

In Q1, we closed on $25 million of new deals, and in April we closed an additional $40 million of new aviation investments and signed $30 million in letters of intent for new deals. Including this activity, we are now estimating run rate FAD from aviation to be over $110 million per annum, assuming no asset sales and no new deals. Our target over the next few years is to grow the portfolio with the existing team into a billion-dollar asset base of approximately 75 to 100 engines and 40 to 50 aircraft, while maintaining our 20% unlevered returns. Given the size of the market, we believe our goals are eminently achievable, and in particular the sector of the market of most interest is the growing fleet of 10 plus year old 737-700 and 800s and A320s.

Let me now turn to offshore. The offshore energy market remains very challenging. Having said that, the Pride, which came off lease early in November just completed its short-term well intervention job in April for one of the majors in conjunction with Halliburton in Malaysia. We are now preparing the Pride for a sizable well intervention campaign in the same region. Until that job is formally awarded, we have contracted the Pride for a short-term charter with a duration of one to two months starting in the middle of June. We continue to work to secure profitable deployment for the Pioneer, our smaller vessel, and bidding her on several short-term charter opportunities also in Southeast Asia.

While having both these vessels off lease for most of Q1 hurt our FAD numbers, we do see the light at the end of the tunnel, as these short-term jobs will generate some income and keep the assets employed. It feels like this sector has hit bottom, but it could be oversupplied for a while. What is most interesting now is the growing number of forced liquidations from over-levered owners of our offshore assets, who have limited reorganization options, and we are looking.

Our shipping container segment, while a smaller piece of our equipment portfolio, performed on plan. As of March 31, 2016 we had approximately $10 million of book equity remaining in this portfolio, which is scheduled to run off over the next few years. If the market were to change we could explore investing again, but don't see compelling opportunities right now.

Let me now turn to infrastructure and cover Jefferson, CMQR, Repauno, and Hannibal. Starting with Jefferson, in the two months since our last call a lot has happened. We are in advanced negotiations to establish an ethanol distribution hub for both US and foreign distribution. Our new joint venture will invest approximately $50 million to construct dedicated tanks and piping, and will be owned 50/50 by Jefferson and an ethanol producer. We are very pleased to be entering a new market for us, while establishing a partnership, which could grow and expand not only inside the joint venture, but potentially to other opportunities as well.

On another front, Jefferson has been negotiating a contract to provide terminal services for a major refinery in the Beaumont/Port Arthur area. Jefferson would construct additional tanks and piping to receive crude tankers for storage until loaded onto barge for local delivery. Construction is expected to take nine to twelve months, and we expect a significant portion of these two new investments of approximately $55 million to be provided by debt financing. There is a lot of activity and ongoing negotiations around moving refined product by rail to Mexico also. Jefferson is a very attractive origination terminal for that activity and we hope to have one to two deals in place in the next few months.

Let me now update you on the crude side of Jefferson. Regarding heavy Canadian crude by rail to Jefferson Terminal, in March we brought in a unit train of undiluted Lloydminster, which is being offered both to local refineries and to export markets. Canadian heavy by rail, blended with West Texas Intermediate, or WTI, offers compelling economics to us and is an attractive assay for the refiners, both in the Gulf region and around the world. In time, we believe that this will develop into a major program at Jefferson. We have made nice progress in the last few months at Jefferson by developing new business, which proves out the attractiveness of the location and the broad capabilities of the terminal.

Central Maine and Quebec Railroad, CMQR -- the railroad was once again a positive contributor. In spite of a soft rail market in most of the US, revenues in the first quarter were $8 million, up from $7 million in Q4 2015, and $6 million in Q1 of 2015 last year. FAD was again positive at $1.3 million, and the new business development projects list, which includes autos, chemicals, propane, and wood products is both maturing and expanding. We think CMQR will do approximately $30 million in revenue this year, and with most short lines trading at approximately 2x to 2.25x revenue, we feel very good about the value creation in this investment.

Finally I am proud to announce that the CMQR was named Regional Railroad of the Year by Railway Age, and with over 500 short line railroads in the US, it is a great achievement for the whole team. The CMQR turnaround, which John Giles and his team have accomplished, positions us extremely well to do more in the short line regional rail space. With volumes declining for many railroads, we are seeing acquisition activity picking up, and we hope to be adding to our rail portfolio soon.

Repauno, we are still expecting to close the acquisition at the end of Q2 or early Q3, and we made significant progress in defining the development plans and mapping out a clear path on four specific projects. First, on the auto side, we are currently negotiating with a major auto company for the construction of a state-of-the-art car distribution facility, which would use approximately 100 acres of the site and these negotiations are progressing with specific proposals due in the next couple of months.

Regarding energy storage and distribution, we have completed the testing of the 186,000 barrel underground granite storage cavern and the cavern held pressure and passed. As such, we have advanced the discussions with a number of parties regarding storage of butane, refined products and also crude storage in above ground locations. The location on the Delaware River is perfect for handling natural gas liquids from the Marcellus and Utica, and also various refined products from the three local refineries. We have planned for and have room for up to 2 million barrels of above ground storage in addition to our underground cavern.

The industrial park, we have made good progress in the permitting process for up to 1 million square feet of industrial warehouse to service both perishable and dry goods sectors. We have two tenants lined up for the first 200,000 square foot perishable warehouse, which we expect to begin work on in Q3.

Solar, we have plans to build solar power generation as part of the warehouse and auto facilities, and those plans are advancing. We could construct on very attractive economics up to 25 megawatts of capacity in stages.

Turning to Hannibal, the availability of cheap gas in the region and the excellent logistics continue to be the main driver of this project. We recently filed an application with the PJM Interconnection, which is a regional transmission organization covering 13 Mid-Atlantic and Midwest states, for an application to build and operate a 500 megawatt gas-fired combined cycle power plant on the Hannibal site. The many advantages of the site, existing transmission infrastructure, access to water, good transportation logistics, access to low-cost gas, and a favorable regulatory district make this location an excellent candidate. The permitting process takes approximately one year, but we will provide periodic updates during that time.

Let me speak briefly about our pipeline. As we look at the investment pipeline today, we see good opportunities in three areas -- aviation, railroads and terminals, and distressed. Regarding distressed, while the quick recovery in some energy related bonds made these opportunities now less interesting, we are actively pursuing a couple of situations in areas unrelated to energy, but ones which we know very well.

In summary, our investments are in good shape. Aviation continues to grow. We will work our way through the downturn in offshore. Rail is performing in a growing opportunity, and Jefferson is happening. I like that the investment environment allows us to be able to expand in our areas of strength, so we can deliver income and growth as promised.

With that, let me turn the call back over to Alan.

Alan Andreini - *FTAI - IR*

Thank you, Joe. Operator, you may now open the call to Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). And our first question comes from the line of Chris Wetherbee of Citigroup. Your line is now open. Please go ahead.

Chris Wetherbee - *Citigroup - Analyst*

Hi, thanks. Good morning guys. Wanted to touch on the pipeline - so Joe some of our last comments there, you mentioned aviation, railroads distressed. Outside of Repauno and Hannibal, just wanted to get a sense of your thoughts around infrastructure. I know you have detailed the Jefferson opportunity, you have given us some thoughts around Repauno and Hannibal, but when you think about that pipeline, is there more or less from an infrastructure perspective that is new business for you in that pipeline than there was maybe three months or six months ago?

Joe Adams - *FTAI - CEO*

I would say that there probably are more deals in the pipeline, but they are probably of a smaller size. So, there might be $100 million to $200 million deals as opposed to $500 million to $1 billion deals. So I would say more by count and probably less by dollar amount.

Chris Wetherbee - *Citigroup - Analyst*

Okay, all right, that is helpful. And then I have a few specifics, from a Jefferson prospective, so when you think about these three opportunities, if you can give us a sense of maybe when we could see some revenue uptick coming from these, obviously you have sort of the baseline business there and you mentioned the unit train of Canadian heavy, but when you think about ethanol distribution, origination for refined products, how do we think about sort of how that could play out from a revenue standpoint?

Joe Adams - *FTAI - CEO*

Well, I think in order of soonest to longest, I think refined products to Mexico has the potential to happen the fastest, and then I would say, the ethanol would be behind that and then the storage deal, just because we have to build new storage tanks, it is probably nine to 12 months out. So, I would say that you probably will not see a lot of revenue in 2016, but that kind of gives you the sense of the progression I think of when they could happen.

Chris Wetherbee - *Citigroup - Analyst*

Okay, that is helpful. And then, when you think about the Jefferson as well, there was I think an equity compensation reversal in the quarter, just want to get a sense sort of if you can give us any color on what is going on and if there is anything that gets impacted from a deal perspective or if there is something else that is sort of tied to that, I just want to make sure I understand how to think about that opportunity?

Joe Adams - *FTAI - CEO*

I think that is related to a specific earn out that the original owner had and it has a time fuse on it, and so as we got closer to the end of that time fuse, it is less likely that those targets would be hit. So that is all it was.

Chris Wetherbee - *Citigroup - Analyst*

Okay, all right. Now that is helpful. Last question, just when the board thinks about buybacks versus other investment opportunities, I guess I just want to make sure I understand the message coming from the buyback relative to sort of the potential pipeline of investment opportunities. The buyback could be attractive at certain levels, but doesn't generate sort of organic FAD, and I guess I just want to understand sort of how you guys view that opportunity or if this is sort of a sign that maybe some of the potential business that you thought was coming might be just further down the pipeline?

Joe Adams - *FTAI - CEO*

No, I don't think -- I think we like both and I think the board appreciates that and there are certainly some advantages to buying assets you already own, which is effectively what a buyback is, but we like both. I mean, I think the accretive nature of buying back stock at a discount is appreciated as is the potential for a new acquisition. So it is not one or the other. It is really both.

Chris Wetherbee - *Citigroup - Analyst*

Okay, all right. Thanks very much for the time. I appreciate it.

Joe Adams - *FTAI - CEO*

Yes.

Operator

Thank you, and our next question comes from the line of Ari Rosa of Bank of America Merrill Lynch. Your line is now open. Please go ahead.

Ari Rosa - *Bank of America Merrill Lynch - Analyst*

Hi, good morning Joe, Jon and Alan. I was hoping first that you guys could talk through the expectations around some of the capital projects at CMQR. I noticed that you obviously upped your revolver facility, wanted to hear about some of the projects that might be in development there?

Joe Adams - *FTAI - CEO*

Yes, one specific reason is that we received the TIGER Grant, and the TIGER Grant is a matching investment program. So, our portion of the TIGER Grant I think was $6 million and then we invest $4 million or so and you have to do that around the same time you receive that money. What that does do is it means really for the next four years you have front ended a lot of the CapEx on the railroad. So it is really just pulling that forward and spending it now, and having the government pay for half of that. So it is a great economic outcome. So it is really -- it is more just a timing, shifting of timing issues.

With respect to other longer-term projects, those would be specific to new contracts and new businesses, and activities around the port of Searsport with respect to autos, woodchips, chemicals would be separate and they are not included in those numbers at this point. But they would be tied to new business.

Ari Rosa - *Bank of America Merrill Lynch - Analyst*

So, you see a lot of other railroads even short line railroads operating with operating ratios in the mid-70s range. Obviously you guys had a big challenge at CMQR, but do you think you can get there or is there -- are there certain structural differences that prevent that from being a realistic target?

Joe Adams - *FTAI - CEO*

No, I think it is a very realistic target and we have talked about that at the beginning. It is just that we have started from a cold start. I mean this railroad was literally totally shut down in July of 2014. So it is a ramp-up, but there is nothing that is different about this railroad and there is some positive attributes given that you connect to a port. So very much like many of the properties that we owned and operated at RailAmerica that did operate in that 25% and 33% EBITDA margin, or the reverse of what you just quoted.

Ari Rosa - *Bank of America Merrill Lynch - Analyst*

Got it. So turning really quickly to the aviation side, your $110 million FAD target, could you talk about kind of what assumptions you guys are making to get to that number?

Joe Adams - *FTAI - CEO*

Mostly just that the rent is pretty much all currently contracted. So they basically just get what you are -- you get what you are owed and then there is some assumption that the hours flown, when you have a lease that has maintenance reserves, it is a function of hours and cycles, and so as long as the airline is flying those hours and cycles, you will receive all that money.

Ari Rosa - *Bank of America Merrill Lynch - Analyst*

Okay. So it sounds like that is a pretty reliable number. It sounds like it is pretty well baked in.

Joe Adams - *FTAI - CEO*

Yes. I feel good about it.

Ari Rosa - *Bank of America Merrill Lynch - Analyst*

Okay, so just kind of last question, and this is piggy-backing a little bit on Chris's question. But looking at Jefferson obviously, and I understand obviously the industrial economy has been a lot tougher than we expected at that time of the IPO, but we also did expect a much quicker ramp up in terms of earnings and certainly contribution from Jefferson to the extent that we have already kind of reached that expectation -- I mean how far into the future is it before we can realistically expect some cash flow contribution from Jefferson, what is it that really needs to happen to get us there?

Joe Adams - *FTAI - CEO*

Well, I think with these new deal opportunities we are there more or less, just if we execute on those, and then the rest would be upside.

Ari Rosa - *Bank of America Merrill Lynch - Analyst*

So is it a six to 12-month target. It sounds like that meaningful FAD contribution could be coming from Jefferson -- from the three opportunities that you have laid out, and maybe some increased train activity, is that what I am hearing?

Joe Adams - *FTAI - CEO*

Yes.

Ari Rosa - *Bank of America Merrill Lynch - Analyst*

Okay got it. Thank you.

Operator

Thank you, and our next question comes from the line of Justin Long of Stephens. Your line is now open. Please go ahead.

Justin Long - *Stephens - Analyst*

Thanks and good morning. So maybe to follow up on the question on aviation, clearly it continues to be a highlight of the business, but I wanted to get your opinion on how this segment could be impacted if oil prices rise, based on your current asset base, is there a good way to frame up the sensitivity in the model to let us call it, $10 move in oil prices, and how that could impact your FAD expectation?

Joe Adams - *FTAI - CEO*

Well, it is a good question and we do think that clearly the airlines are holding airplanes longer now given that low -- fuel prices are low. I think it matters a lot less with narrow body fleets than it does with the wide body fleets. And so one of the experiences that I always tell people is back in, when we owned Aircastle and we owned a lot of 737-300 and 400s, which were older airplanes at the time, and fuel price shot up to $140 a barrel in 2007, and our original thought was, "Gee, that is going to be bad for 737-300s and 400s because they are less fuel-efficient than 737-700s and 800s," and in fact what happened is people that had MD80s were scrambling to find 737-300s and 400s because they were even worse. So these rates on the older assets actually went up with the higher fuel price, which was not, it was a little bit counterintuitive.

So I think the key is to buy assets that you feel can operate well in both economic environments and that is what we do. And so when we buy 737-700s and 800s and A320s and 757s, we think those assets will be in demand in really a very, very wide range of fuel prices given the demand for traffic and the lack of the ability to replace those assets. And so I couldn't give you a specific algorithm which says every $10 in a barrel of oil equates to a lease rate amount because I don't think it really works that way.

Justin Long - *Stephens - Analyst*

Okay, that is all helpful. Next I wanted to ask a question about Jefferson, Joe you gave some color on the potential capital outflow for the ethanol distribution and crude storage opportunities. But on the third opportunity to export refined products to Mexico, is there any ballpark number you could provide on the capital that you could deploy, so just give us a sense for the order of magnitude?

Joe Adams - *FTAI - CEO*

Well, there is probably different levels, but it is not a lot of capital to get it started. If you turn it into a higher volume, more permanent infrastructure, I would say probably between $20 million and $30 million would be a decent number. But it is possible to get it started with a little new infrastructure.

Justin Long - *Stephens - Analyst*

Okay and I think the last one from me -- you mentioned deals in the rail sector picking up and I was wondering if you could provide some more color on that front because any way that you could kind of look at your pipeline today and share what percentage of that is rail related and then just a typical side of the rail deals you are considering?

Joe Adams - *FTAI - CEO*

I would say it's bigger than it has been for a while. Rail deals tend to be episodic, they come and they -- it's hard to schedule them because some of these railroads have been, we have looked at railroads that we would like to buy ten years ago but they are still available out there. So most of what we are focusing on I would say would be between $50 million and $200 million and there are several.

Justin Long - *Stephens - Analyst*

Okay great. That's helpful. I appreciate the time.

Joe Adams - *FTAI - CEO*

Yes.

Operator

Thank you and our next question comes from the line of Devin Ryan of JMP Securities. Your line is now open, please go ahead.

Devin Ryan - *JMP Securities - Analyst*

Hey guys, good morning. I guess may be first here on the aviation side, can you may be talk a little about what you guys are seeing on the pricing side. You really like how that's trended in the market, since [indiscernible] come to you guys but I know you spoken about some [ABS] opportunity there. So I'm just curious kind of what you see pricing, where you are sourcing from right now? And then just a follow up on that what's the lag in utilization after closing a deal? How many months until you come with a full utilization?

Joe Adams - *FTAI - CEO*

When you say pricing you mean the price of an asset or the rent?

Devin Ryan - *JMP Securities - Analyst*

Yes, the price of an asset what you are purchasing.

Joe Adams - *FTAI - CEO*

It's really a bifurcated market. If you have an asset say under ten years, a five year older asset with three to five years of attached cash flow or three to seven years, prices are really, really high and we generally don't, we are sometimes putting the indications but we could be substantially lower than where people are being able to sell things. And I think some of that is due to new money coming from many different sources that wants to get into aviation. So that market is extremely competitive.

The market that we participate in tends to be very uncompetitive of course and that's what we look for, and so we're buying assets either don't have a lease or that might have one or two airplanes deal that has something about it that's difficult for the conventional buyer to just figure out. And those deals I think are still, there's still enough of them around for us to keep us happy. We've also done a couple of deals where we've bought some airplanes and then sold the airplane to the operator and lease them engines as part of the deal which is something I've been trying to do for a while and we've got a couple of them now we've done. That to me is the best of all worlds as we own, we own the best asset, we collect almost the same amount of cash flow but we don't own the airplane.

So there's a lot of stuff out there in our area of focus to do. I haven't seen any decrease in that activity but I would say on the more conventional down the middle assets which is highly competitive.

Devin Ryan - *JMP Securities - Analyst*

Got it. Okay that's helpful. And just in terms of utilization, how many months just after the deals close we think about those assets coming on lease?

Joe Adams - *FTAI - CEO*

Well, I think it ranges. Some deals we actually buy to have cash flow attached, so its immediate and then other times you could take three or four months to get them on lease. Sometimes we will buy something has to be overhauled or might need maintenance, which is another way to create significant value.

Devin Ryan - *JMP Securities - Analyst*

Okay. That's helpful. I appreciate the update there. And may be the bigger picture -- just trying to run through all the puts and takes on dividend coverage, aviation it sounds like it's pretty close to more than covering the full dividend but just on a net basis still clearly a lot of moving parts you're seeing?

Joe Adams - *FTAI - CEO*

Well, I think if you were on a cell, I think we might have lost you.

Operator

And our next question comes from the line of Brandon Oglenski of Barclays. Your line is now open. Please go ahead.

Eric Morgan - *Barclays - Analyst*

This is Eric Morgan on for Brandon. Thanks for taking our question. I just wanted the follow up on the earlier question about the buyback and what we might be able to derive from that regarding the health of the market. Obviously your stock has gotten cheap since IPO but it feels like other investment opportunities have as well. I guess, what is changed, that kind of mix, reinvesting in the assets that you own a little bit more attractive than what else is out there.

Joe Adams - *FTAI - CEO*

Well I don't think anything has really changed. I think we view both of them attractive investment opportunities and so it's having the ability to do that is what the board is now authorized us to do.

Eric Morgan - *Barclays - Analyst*

Okay and is there anything to drive in terms of the opportunities out there in the pipeline on the infrastructure side versus aviation, or not so much?

Joe Adams - *FTAI - CEO*

No, I think, I mean it's a very strong pipeline, as I went through is specifically as I could on a number of opportunities that we see and we are very active and busy and see things that we think are very good value as well. So no commentary on the pipeline.

Eric Morgan - *Barclays - Analyst*

Okay, and then just quickly on the Jefferson projects. I know you gave a little bit of detail on the sizing, is there any way to quantify the potential FAD contribution from those?

Joe Adams - *FTAI - CEO*

I would say there is a range obviously and it's probably high single digits up to $15 million or may be as high as $20 million of contribution over time.

Eric Morgan - *Barclays - Analyst*

Okay. I appreciate it.

Operator

Thank you, and our next question comes from the line of Art Hatfield of Raymond James. Your line is now open. Please go ahead.

Art Hatfield - *Raymond James - Analyst*

Hey. Thank you. A couple of things and I don't think you touched on these but in the aviation deals that you closed in April and the LOIs should we think about comparable returns to what the business is already being getting on those investments?

Joe Adams - *FTAI - CEO*

Yes.

Art Hatfield - *Raymond James - Analyst*

And any thought on timing on when the LOI will be acted on and closed?

Joe Adams - *FTAI - CEO*

They're pretty near term, I would say April/May.

Art Hatfield - *Raymond James - Analyst*

Okay so those deals that should close in Q2 and we start to get benefit in Q3.

Just back to Jefferson and again most of my questions have answered, but on Jefferson when we think about the opportunity for growth in the volume that runs through Jefferson, what ultimately is going to drive that? Is that absolute price of crude? Is it a regional spread differential that you need to think about? Or is it really the structure where you see and the opportunity you have to serve specific customers within that area?

Joe Adams - *FTAI - CEO*

Yes. You summarized it very well. In all matters, I would agree, having a higher price crude means people have more money to play around with and it is just more and more easier pricing environment. Secondly the differentials can matter from time to time and obviously that was what drove originally a lot of crude by rail activity was huge spread between WTI and Brent. And then thirdly it's just the activity. The Gulf is a very good market. It's a very a strong refinery market, very strong chemical market. Now you've got VLGC is going out with propane to the Asian markets through the Panama Canal. It has tremendous diversity and strength in that diversity. And so we're in a great position in that market. And I think that adding new lines of businesses and new products and will allow us to keep diversifying out and have multiple opportunities be it, not just crude, but refined products -- be it and things like ethanol, propane, natural gas liquids. There's lots of ideas and opportunities that we keep pursuing.

Art Hatfield - *Raymond James - Analyst*

Great and last question, Joe, you had mentioned earlier regarding the pipeline that you've seen a shift and the deals that you're looking at more on the smaller side and less on the larger side, what has driven that specifically?

Joe Adams - *FTAI - CEO*

I don't know. I mean I don't really control what people put up and are willing to sell. It's very hard for me to pinpoint that and I think it's partially -- I guess I would say that it's a tougher economic environment today than it was nine months or year ago. So I think people have softened up a little bit in terms of needing cash, needing liquidity and recognizing that maybe the world isn't going to grow as fast as they thought it was and so I think it's probably a combination of those factors that you do see more, we see more properties now as available.

Art Hatfield - *Raymond James - Analyst*

Very good, thanks for your time this morning.

Operator

(Operator Instructions). And our next question comes from the line of Robert Salmon. Your line is now open, of Deutsche Bank. Please go ahead.

Alan Clark - *Deutsche Bank - Analyst*

Hey, guys. It's Alan Clark on for Rob. In regards to the aviation portfolio, I know you've got plans to build it to a billion-dollar portfolio but do you have a target sort of the end of the year there we could flow through the model? What you guys are referring to?

Joe Adams - *FTAI - CEO*

We don't. We try not to say that we have to invest this much capital in any time period. It's a bad investment philosophy. So we don't set targets and how much we want to invest. We set -- we really have more targets around how much money we make, how much you can produce. So I would not, I mean I know you can take and extrapolate from what we've done in the past and past investing and assume that if that continues and I wouldn't disagree with that.

Alan Clark - *Deutsche Bank - Analyst*

Okay, all right. That's fair. And then I think you've talked about in the past but you have any plans to use leverage in that portfolio at all down the road?

Joe Adams - *FTAI - CEO*

Yes we have the ability to do that. We have$300 plus million of cash to invest first, but if the right deal came along, yes we could and leverage -- we are right now still under 20% debt to total cap. So we are very low leverage which gives us the ability to move that up with a deal.

Alan Clark - *Deutsche Bank - Analyst*

Okay and then switching to offshore, you talked up some of the seeing increased distressed opportunities, are those just any similar investments to that you have now or would there be other verticals or something like or --

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Joe Adams - *FTAI - CEO*

Well I think we would only look, we're currently only contemplating doing something in the inspection/repair/maintenance market. There are various distressed across the board there though.

Alan Clark - *Deutsche Bank - Analyst*

Right, right.

Joe Adams - *FTAI - CEO*

Our focus and I think we like the market, there's a lot of deferred maintenance subsea installations around the world and as people have cut back on their budgets and that work is going to have to be done. And so that's what I like about that market. It's s not a function of the oil price, not a function of people -- will Petrobras start drilling again? It is going to have to be done because you have to maintain these fields or they either have accidents or you shut them down which, either of which are bad alternatives. So that's why I like that space and that's where we would continue to look.

Alan Clark - *Deutsche Bank - Analyst*

Alright, that's all, that's it from me. Thank you very much.

Joe Adams - *FTAI - CEO*

Yes.

Operator

Thank you. And I am showing a follow up question from the line of Devin Ryan of JMP Securities. Your line is now open. Please go ahead.

Devin Ryan - *JMP Securities - Analyst*

Thanks guys, let me try this one again here. So, I guess I'm just really trying to bigger picture thinking about dividend coverage and clearly a lot of puts and takes here and really good to hear the new aviation update and the run rate there and clearly that's going to continue to grow. But there's also a lot of kind of other moving parts -- CMQR is ramping, some uncertainty around leases in offshore the comments around Jefferson. So I am try to get a sense of, can we point to a quarter where we say, "Okay this point we were covering the dividend." Or is there still some uncertainty just around timing of investments going back in the business? I'm just trying to think if we can by 3Q will formally be there.

Joe Adams - *FTAI - CEO*

Well, I don't have a formal, specific answer but I think if you assume aviation we continue to invest and continues to grow, that's good. Jefferson, I have indicated we're very close to being positive or contributor. CMQR is a positive contributor. Offshore, I think could be not much of a significant contributor this year but could be next year and you sort of add that up and if we have any new investments then we would be above that.

Devin Ryan - *JMP Securities - Analyst*

Got it, okay. Thank you very much.

Joe Adams - *FTAI - CEO*

Thanks.

Operator

Thank you and our next question comes from the line of Jared Shojaian of Wolfe Research. Your line is now open, please go ahead.

Jared Shojaian - *Wolfe Research - Analyst*

Hi, good morning. So can you guys give some guidance on second quarter FAD and full year FAD? I'm really just trying to see how the dividend in the buyback fit in here.

Jon Atkeson - *FTAI - CFO, COO*

This is Jon. We don't give specific guidance on it. What I would tell you is that the contribution that we saw from containers in the first quarter will obviously not be recurring in the second quarter. The aviation, we should see some pick up there because of the increased deployment of capital and then I think everything else is really looking what happened in first quarter and looking towards what's happening in the second quarter. So in the offshore will benefit a little bit from the charter deployment of the price but that's really starting up in mid-June. The operating expenses should be a little bit lower there. And then the Jefferson activity that we hope to announce soon will start to contribute but that's probably a quarter or two away in terms of developing and deploying the capital associated with those contracts and getting that ramped up.

Jared Shojaian - *Wolfe Research - Analyst*

Okay, I understand that but if I look at the first quarter asset sales, working capital, I mean that's basically driving your entire FAD for the quarter. And you've got $100 million dividend given over the next 12 months you've got to $50 million buyback I mean -- how do you get $150 million in FAD here? Anything you can share just going into 2Q, 3Q 4Q -- are we going to continue to just remain undercovered on the cash deployment or how do we think about that?

Jon Atkeson - *FTAI - CFO, COO*

Well I think, we try to give the aviation FAD numbers. We indicated at the current investment level it's over $110 million that's without any asset sales.

Jared Shojaian - *Wolfe Research - Analyst*

Right, okay. So is that run rate starting in 2Q immediately or when does that start?

Jon Atkeson - *FTAI - CFO, COO*

I think at the end of Q2.

Jared Shojaian - *Wolfe Research - Analyst*

Okay and then should we assume $30 million of offsets from corporate and infrastructure and so you're somewhere around $80 million, is that the right way to think about it?

Jon Atkeson - *FTAI - CFO, COO*

It's about $30 million from the corporate and then the infrastructure I think is on top of that. So that's probably another $20 million.

Jared Shojaian - *Wolfe Research - Analyst*

Okay, I mean there is still a shortfall with the cash deployment. I am trying to figure out at what point do you pull back may be pause a little bit on the dividend or the buyback, at what point do you do that?

Joe Adams - *FTAI - CEO*

Well we don't see the need to do that. Obviously we just said, we believe that we will cover the dividend and stock buybacks are accretive because you are buying back stocks which are paying dividends, so it's not a, those are not net negative. That's deployment of capital.

Jared Shojaian - *Wolfe Research - Analyst*

Okay, thank you.

Operator

Thank you. And I am showing no further questions at this time, I will like to turn the call over to Mr. Alan Andreini for closing remarks.

Alan Andreini - *FTAI - IR*

Thank you all for participating in today's conference call. We look forward to updating you again after Q2.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone have a great day.