Macquarie Infrastructure Corp
Form 10-Q
May 02, 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 March 31, 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 85,084,344 shares of common stock, with $0.001 par value, outstanding at May 1, 2018.

(212) 231-1000

MACQUARIE INFRASTRUCTURE CORPORATION

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Management s Discussion and Analysis of Financial Condition and Results of Operations	1
Quantitative and Qualitative Disclosures About Market Risk	26
Controls and Procedures	26
Consolidated Condensed Balance Sheets as of March 31, 2018 (Unaudited) and December 31, 2017	27
Consolidated Condensed Statements of Operations for the Quarters Ended March 31, 2018 and 2017 (Unaudited)	29
Consolidated Condensed Statements of Comprehensive Income for the Quarters Ended March 31, 2018 and 2017 (Unaudited)	30
Consolidated Condensed Statements of Cash Flows for the Quarters Ended March 31, 2018 and 2017 (Unaudited)	31
Notes to Consolidated Condensed Financial Statements (Unaudited)	33
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	53
Item 1A. Risk Factors	53
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	53
Item 3. Defaults Upon Senior Securities	53
Item 4. Mine Safety Disclosures	54
Item 5. Other Information	54
Item 6. Exhibits	54

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 Stock 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.

1

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) 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 of varying maturities providing access to storage tank capacity and ancillary services.

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
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 March 31, 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

Recent Developments

We are exploring the potential sale of a portion or all of Bayonne Energy Center (BEC), a business within the Contracted Power segment. If an agreement for a sale can be reached, it is possible that such a transaction could be concluded before the end of 2018. We are also undertaking a review of strategic options available to us with respect to certain other, smaller businesses in our portfolio and after quarter end, we completed the sale of OMI Environmental Solutions, Inc. (OMI), an environmental response subsidiary of IMTT. We may, as a result of this review, undertake to sell, or otherwise divest of other businesses, although we cannot assure you as to whether, or on what terms, any such transaction will occur. We currently anticipate that proceeds, if any, from such sales would be available to support investment in any of the businesses or segments in which we currently operate or to reduce indebtedness as we and our board of directors may deem appropriate.

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 service center to each of MIC s operating segments and Corporate and Other based on the allocable effort deployed in delivering those services to that particular segment. These costs are reflected in *Selling, general and administrative expenses*.

To date, we have realized approximately $11.0 million of savings from our shared services center, of which approximately 65% is procurement related and 35% is headcount-related. These headcount reductions have been partially offset by *Selling, general and administrative expenses* increases associated with acquisitions that were completed in 2017 and 2018 as well as additional functionality that we have added to our shared service center in areas such as legal and procurement. Savings from our procurement initiative will be reflected in a reduction in *Costs of services* and *Cost of products sold*, *Selling, general and administrative expenses* and capital expenditures and may not be evenly allocated to any individual operating segment.

Results of Operations

Consolidated

Our consolidated results of operations for the quarter demonstrate the importance of maintaining a suitably diversified portfolio of infrastructure businesses and investing prudently in the growth of those businesses. An expected decrease in the contribution to our overall results from our IMTT business was largely offset by strong performance by Atlantic Aviation and Contracted Power businesses resulting in the generation of EBITDA excluding non-cash items that were broadly flat year over year.

The decreased contribution from IMTT reflected the non-renewal of certain contracts for bulk liquid storage and handling services in late 2017 and early 2018, partially offset by contributions from an acquisition in 2017. Atlantic Aviation performed well versus the prior comparable period as a result of increases in GA flight activity, contributions from acquisitions of additional FBOs in 2017 and the operational leverage inherent in the business.

Results for Contracted Power were better than anticipated, driven by favorable weather conditions with respect to BEC and improved operations of certain of our renewable power generation assets from better resourcing and the internalization of the oversight of operations. MIC Hawaii s results were below expectations primarily as a result of cost increases at Hawaii Gas and underperformance by our design-build mechanical contractor.

Our financial performance versus the prior comparable period reflects the absence of implementation costs related to shared services and the related benefit of reductions in procurement.

Capital deployed in 2017, including into various acquisitions, contributed to our overall results in the first quarter as expected. Acquisitions by each of IMTT and Atlantic Aviation performed in line with their respective investment cases while investment in significant projects, such as the development of additional power generation capability at BEC, are expected to contribute in the second and subsequent quarters.

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

Our consolidated results of operations are as follows:

	Quarter Ended March 31,		Change Favorable/(Unfavorable)	
	2018	2017	$	%
	($ In Thousands, Except Share and Per Share Data) (Unaudited)			
Revenue				
Service revenue	$402,609	$363,804	38,805	10.7
Product revenue	98,947	87,653	11,294	12.9
Total revenue	501,556	451,457	50,099	11.1
Costs and expenses				
Cost of services	187,470	154,706	(32,764)	(21.2)
Cost of product sales	53,385	47,225	(6,160)	(13.0)
Selling, general and administrative	86,957	76,952	(10,005)	(13.0)
Fees to Manager related party	12,928	18,223	5,295	29.1
Depreciation	61,358	57,681	(3,677)	(6.4)
Amortization of intangibles	17,216	17,693	477	2.7
Total operating expenses	419,314	372,480	(46,834)	(12.6)
Operating income	82,242	78,977	3,265	4.1
Other income (expense)				
Interest income	80	34	46	135.3
Interest expense(1)	(18,790)	(25,482)	6,692	26.3
Other income, net	42	1,182	(1,140)	(96.4)
Net income before income taxes	63,574	54,711	8,863	16.2
Provision for income taxes	(16,779)	(22,073)	5,294	24.0
Net income	$46,795	$32,638	14,157	43.4
Less: net loss attributable to noncontrolling interests	(30,039)	(3,377)	26,662	NM
Net income attributable to MIC	$76,834	$36,015	40,819	113.3
Basic income per share attributable to MIC	$0.91	$0.44	0.47	106.8
Weighted average number of shares outstanding: basic	84,821,453	82,138,168	2,683,285	3.3

NM Not meaningful

(1) Interest expense includes gains on derivative instruments of $15.1 million and $954,000 for the quarters ended March 31, 2018 and 2017, respectively.

Revenue

Consolidated revenues increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily as a result of, (i) an increase in the wholesale cost and the volume of jet fuel sold at Atlantic Aviation; (ii) an increase in revenue from our mechanical contracting business and an increase in the wholesale cost and volume of gas sold at MIC Hawaii; (iii) improved operations and utilization at our Contracted Power businesses; and, (iv) contributions from acquisitions.

4

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

Cost of Services and Product Sales

Consolidated cost of services and product sales increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to, (i) an increase in the wholesale cost of jet fuel at Atlantic Aviation; (ii) the increase in the wholesale cost of gas and lower margins at MIC Hawaii; and, (iii) incremental costs associated with acquired operations. The changes in consolidated cost of services and product sales also reflect lower unrealized losses on commodity hedges at Hawaii Gas compared with the quarter ended March 31, 2017 (see Results of Operations *MIC Hawaii* below).

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to incremental costs associated with acquired businesses and increases in salaries and benefits. The increase was partially offset by the absence of costs incurred in connection with the implementation of our shared services center.

Fees to Manager

Our Manager is entitled to a monthly base management fee based primarily on our market capitalization and potentially a quarterly performance fee based on total stockholder returns relative to a U.S. utilities index. For the quarters ended March 31, 2018 and 2017, we incurred base management fees of $12.9 million and $18.2 million, respectively. No performance fees were generated in either period. The unpaid portion of base management fees and performance fees, if any, at the end of each reporting period is included in the line item *Due to Manager-related party* in our consolidated condensed balance sheets.

In all of the periods shown below, our Manager elected to reinvest any fees to which it was entitled in additional shares. In accordance with the Third Amended and Restated Management Services Agreement, our Manager has currently elected to reinvest future base management fees and performance fees, if any, in new primary shares.

Period	Base Management Fee Amount ($ in Thousands)	Performance Fee Amount ($ in Thousands)	Shares Issued
2018 Activity:			
First quarter 2018	$ 12,928	$	265,002 (1)
2017 Activities:			
Fourth quarter 2017	$ 16,778	$	248,162
Third quarter 2017	17,954		240,674
Second quarter 2017	18,433		233,394
First quarter 2017	18,223		232,398

(1) Our Manager elected to reinvest all of the monthly base management fees for the first quarter of 2018 in shares. We issued 265,002 shares for the quarter ended March 31, 2018, including 88,628 shares and 93,154 shares that

were issued in April 2018 for the February and March 2018 monthly base management fee, respectively.

Depreciation

Depreciation expense increased for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 primarily due to contributions from acquisitions and assets placed in service.

5

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

Interest Expense and Gains (Losses) on Derivative Instruments

Interest expense includes gains on derivative instruments of $15.1 million and $954,000 for the quarters ended March 31, 2018 and 2017, respectively. Gains and losses on derivatives recorded in interest expense are attributable to the change in fair value of interest rate hedging instruments. Excluding the derivative adjustments, cash interest expense was $29.8 million and $25.9 million for the quarters ended March 31, 2018 and 2017, respectively. The increase reflects primarily higher average debt balances and an increase in the weighted average interest rate. See discussions of interest expense for each of our operating businesses below.

Income Taxes

We file a consolidated federal income tax return that includes the financial results for IMTT, Atlantic Aviation, BEC, MIC Hawaii and our allocable share of the taxable income (loss) from our wind and solar facilities. The wind and solar facilities in which we have less than 100% equity interests are held by limited liability companies treated as partnerships for tax purposes. Pursuant to a tax sharing agreement, the businesses included in our consolidated federal income tax return, pay MIC an amount equal to the federal income tax each would have paid on a standalone basis as if they were not part of the consolidated federal income tax return. In addition, our businesses also file income tax returns in the jurisdictions in which they operate.

For the year ending December 31, 2018, we expect any consolidated federal income tax liability our businesses may generate to be fully offset by net operating loss (NOL) carryforwards. Our federal NOL balance at December 31, 2017 was $347.3 million. We believe that we will be able to utilize all of our federal prior year NOLs and, together with planned tax strategies, we do not expect to make material regular federal income tax payments, with our current portfolio of businesses, any earlier than 2020.

For the year ending December 31, 2018, we expect current year federal taxable income to be approximately $55.0 million and we expect our businesses collectively to pay state or provincial income taxes of approximately $13.5 million. In calculating our consolidated state income tax provision, we have provided a valuation allowance for certain state income tax NOLs, the use of which is uncertain.

The Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act signed into law on December 22, 2017 includes provisions that will have an impact on our federal taxable income. The most significant of these are 100% bonus depreciation on qualifying assets (which is scheduled to decrease ratably to 0% between 2023 and 2027) and a reduction in the federal corporate tax rate from 35% to 21%.

The Tax Cuts and Jobs Act also includes a new limitation on the deductibility of net interest expense that generally limits the deduction to 30% of adjusted taxable income . For years before 2022, adjusted taxable income is defined as taxable income computed without regard to certain items, including net business interest expense, the amount of any NOL deduction, tax depreciation and tax amortization. We do not expect to incur net interest expense that is greater than adjusted taxable income prior to 2022.

Noncontrolling Interest

The increase in loss attributable to noncontrolling interest for the quarter ended March 31, 2018 compared with the quarter ended March 31, 2017 is primarily driven by the effects of the Tax Cuts and Jobs Act on certain partnership entities within the Contracted Power segment.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics

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.

Results of Operations: *Consolidated* (continued)

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. We believe investors use EBITDA excluding non-cash items primarily as a measure of the operating performance of MIC s businesses and to make comparisons with the operating performance of other businesses whose depreciation and amortization expense may vary widely from ours, particularly where acquisitions and other non-operating factors are involved. We define EBITDA excluding non-cash items as net income (loss) or earnings *the most comparable GAAP measure* before interest, taxes, depreciation and amortization and non-cash items including impairments, unrealized derivative gains and losses, adjustments for other non-cash items and pension expense reflected in the statements of operations. EBITDA excluding non-cash items also excludes base management fees and performance fees, if any, whether paid in cash or stock.

Given our varied ownership levels in our Contracted Power and MIC Hawaii segments, together with our obligations to report the results of these businesses on a consolidated basis, GAAP measures such as net income (loss) do not fully reflect all of the items we consider in assessing the amount of cash generated based on our proportionate interest in our wind and solar facilities. We note that the proportionately combined metrics used may be calculated in a different manner by other companies and may limit their usefulness as a comparative measure. Therefore, proportionately combined metrics should be used as a supplemental measure and not in lieu of our financial results reported under GAAP.

Our businesses are characteristically owners of high-value, long-lived assets capable of generating substantial Free Cash Flow. We define Free Cash Flow as cash from operating activities *the most comparable GAAP measure* which includes cash paid for interest, taxes and pension contributions, less maintenance capital expenditures, which includes principal repayments on capital lease obligations used to fund maintenance capital expenditures, and excluding changes in working capital.

We use Free Cash Flow as a measure of our ability to provide investors with an attractive risk-adjusted total return by sustaining and potentially increasing our quarterly cash dividend and funding a portion of our growth. GAAP metrics such as net income (loss) do not provide us with the same level of visibility into the performance and prospects of the business as a result of: (i) the capital intensive nature of our businesses and the generation of non-cash depreciation and amortization; (ii) shares issued to our external Manager under the Management Services Agreement; (iii) our ability to defer all or a portion of current federal income taxes; (iv) non-cash unrealized gains or losses on derivative instruments; (v) amortization of tolling liabilities; (vi) gains (losses) on disposal of assets; and (vii) pension expenses. Pension expenses primarily consist of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses. Any cash contributions to pension plans are reflected as a reduction to Free Cash Flow and are not included in pension expense. We believe that external consumers of our financial statements, including investors and research analysts, use Free Cash Flow both to assess MIC s performance and as an indicator of its success in generating an attractive risk-adjusted total return.

In this Quarterly Report on Form 10-Q, we have disclosed Free Cash Flow on a consolidated basis and for each of our operating segments and MIC Corporate. We believe that both EBITDA excluding non-cash items and Free Cash Flow support a more complete and accurate understanding of the financial and operating performance of our businesses than would otherwise be achieved using GAAP results alone.

Free Cash Flow does not take into consideration required payments on indebtedness and other fixed obligations or other cash items that are excluded from our definition of Free Cash Flow. We note that Free Cash Flow may be calculated differently by other companies thereby limiting its usefulness as a comparative measure. Free Cash Flow should be used as a supplemental measure and not in lieu of our financial results reported under GAAP.

7

TABLE OF CONTENTS

Results of Operations: *Consolidated* (continued)

Classification of Maintenance Capital Expenditures and Growth Capital Expenditures

We categorize capital expenditures as either maintenance capital expenditures or growth capital expenditures. As neither maintenance capital expenditure nor growth capital expenditure is a GAAP term, we have adopted a framework to categorize specific capital expenditures. In broad terms, maintenance capital expenditures primarily maintain our businesses at current levels of operations, capability, profitability or cash flow, while growth capital expenditures primarily provide new or enhanced levels of operations, capability, profitability or cash flows. We consider a number of factors in determining whether a specific capital expenditure will be classified as maintenance or growth.

We do not bifurcate specific capital expenditures into maintenance and growth components. Each discrete capital expenditure is considered within the above framework and the entire capital expenditure is classified as either maintenance or growth.

A reconciliation of net income (loss) to EBITDA excluding non-cash items and a reconciliation from cash provided by operating activities to Free Cash Flow, on a consolidated basis, is provided below. Similar reconciliations for each of our operating businesses and MIC Corporate follow.

	Quarter Ended March 31,		Change Favorable/(Unfavorable)	
	2018	2017	$	%
	($ In Thousands) (Unaudited)			
Net income	$46,795	$32,638		
Interest expense, net[1]	18,710	25,448		
Provision for income taxes	16,779	22,073		
Depreciation	61,358	57,681		
Amortization of intangibles	17,216	17,693		
Fees to Manager-related party	12,928	18,223		
Pension expense[2]	2,253	2,694		
Other non-cash expense, net[3]	4,880	3,865		
EBITDA excluding non-cash items	$180,919	$180,315	604	0.3
EBITDA excluding non-cash items	$180,919	$180,315		
Interest expense, net[1]	(18,710)	(25,448)		
Adjustments to derivative instruments recorded in interest expense[1]	(15,049)	(3,247)		
Amortization of debt financing costs[1]	3,049	2,202		
Amortization of debt discount[1]	897	619		
Provision for current income taxes	(3,871)	(3,721)		
Changes in working capital[4]	(3,133)	(23,126)		
Cash provided by operating activities	144,102	127,594		
Changes in working capital[4]	3,133	23,126		
Maintenance capital expenditures	(9,862)	(4,476)		
Free cash flow	$137,373	$146,244	(8,871)	(6.1)

(1) Interest expense, net, includes adjustments to derivative instruments, non-cash amortization of deferred financing fees and non-cash amortization of debt discount related to the 2.00% Convertible Senior Notes due October 2023.

(2) Pension expense primarily consists of interest cost, expected return on plan assets and amortization of actuarial and performance gains and losses.

(3) Other non-cash expense, net, primarily includes non-cash amortization of tolling liabilities, unrealized gains (losses) on commodity hedges and non-cash gains (losses) related to disposal of assets. See *Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* above for further discussion.

(4) Conformed to current period presentation for the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* See Note 2, Basis of Presentation , in our Notes to Consolidated Condensed Financial Statements in Part I of this Form 10-Q for recently issued accounting standards.

TABLE OF CONTENTS

Reconciliation from Consolidated Free Cash Flow to Proportionately Combined Free Cash Flow

See Results of Operations *Consolidated* above for a reconciliation of Free Cash Flow Consolidated basis to cash provided by operating activities, the most comparable GAAP measure. The following table is a reconciliation from Free Cash Flow on a consolidated basis to Free Cash Flow on a proportionately combined basis (our proportionate interest in our wind and solar facilities). See Results of Operations below for a reconciliation of Free Cash Flow for each of our segments to cash provided by (used in) operating activities for such segment.

	Quarter Ended March 31,		Change Favorable/(Unfavorable)	
	2018	2017	$	%
	($ In Thousands) (Unaudited)			
Free Cash Flow Consolidated basis	$137,373	$146,244	(8,871)	(6.1)
100% of Contracted Power Free Cash Flow included in consolidated Free Cash Flow	(14,527)	(9,839)		
MIC s share of Contracted Power Free Cash Flow	12,099	8,171		
100% of MIC Hawaii Free Cash Flow included in consolidated Free Cash Flow	(10,750)	(14,936)		
MIC s share of MIC Hawaii Free Cash Flow	10,747	14,933		
Free Cash Flow Proportionately Combined basis	$134,942	$144,573	(9,631)	(6.7)

Results of Operations: *IMTT*

IMTT recorded financial results for the first quarter of 2018 that reflect an expected decline in storage capacity utilization levels, partially offset by contributions from an acquisition in 2017. During the first quarter, the decline was principally the result of previously disclosed non-renewals of certain contracts for storage and handling involving a portion of the business heavy and residual oil capacity on the Lower Mississippi River. Contract non-renewals, inclusive of a small number of contracts involving clean refined products in the New York Harbor, reduced capacity utilization to an average 88.1% for the quarter ended March 31, 2018 compared with 96.3% for the quarter ended March 31, 2017 and utilization of 90.6% for the quarter ended December 31, 2017. Given some customers for certain petroleum products are renewing contracts for short durations, this will increase the frequency with which contracts are renewed.

IMTT is currently both involved in and evaluating opportunities related to: