

Macquarie Infrastructure Corp
Form 10-K
February 21, 2018

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

FORM 10-K

(Mark One)

**ACTUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2017**

OR

**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)

Edgar Filing: Macquarie Infrastructure Corp - Form 10-K

Delaware
(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)

Registrant's Telephone Number, Including Area Code: **(212) 231-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Exchange on Which Registered:
Common stock, par value \$0.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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
Non-accelerated Filer

Accelerated Filer
Smaller Reporting Company

Emerging Growth Company

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.

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

The aggregate market value of the outstanding shares of stock held by non-affiliates of Macquarie Infrastructure Corporation at June 30, 2017 was \$6,061,193,768 based on the closing price on the New York Stock Exchange on that date. This calculation does not reflect a determination that persons are affiliates for any other purposes.

There were 84,819,268 shares of common stock, with \$0.001 par value, outstanding at February 16, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to Macquarie Infrastructure Corporation's Annual Meeting of Stockholders for fiscal year ended December 31, 2017, to be held May 16, 2018 is incorporated by reference in Part III to the extent described therein.

TABLE OF CONTENTS

MACQUARIE INFRASTRUCTURE CORPORATION

TABLE OF CONTENTS

	Page
PART I	
<u>Item 1.</u>	<u>3</u>
<u>Business</u>	
<u>Item 1A.</u>	<u>21</u>
<u>Risk Factors</u>	
<u>Item 1B.</u>	<u>52</u>
<u>Unresolved Staff Comments</u>	
<u>Item 2.</u>	<u>52</u>
<u>Properties</u>	
<u>Item 3.</u>	<u>53</u>
<u>Legal Proceedings</u>	
<u>Item 4.</u>	<u>53</u>
<u>Mine Safety Disclosures</u>	
PART II	
<u>Item 5.</u>	<u>54</u>
<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	
<u>Item 6.</u>	<u>56</u>
<u>Selected Financial Data</u>	
<u>Item 7.</u>	<u>58</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>Item 7A.</u>	<u>99</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
<u>Item 8.</u>	<u>101</u>
<u>Financial Statements and Supplementary Data</u>	
<u>Item 9.</u>	<u>158</u>
<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	

<u>Item 9A.</u>	<u>158</u>
<u>Controls and Procedures</u>	
<u>Item 9B.</u>	<u>160</u>
<u>Other Information</u>	
PART III	
<u>Item 10.</u>	<u>160</u>
<u>Directors, Executive Officers and Corporate Governance</u>	
<u>Item 11.</u>	<u>160</u>
<u>Executive Compensation</u>	
<u>Item 12.</u>	<u>160</u>
<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	
<u>Item 13.</u>	<u>161</u>
<u>Certain Relationships and Related Transactions and Director Independence</u>	
<u>Item 14.</u>	<u>161</u>
<u>Principal Accountant Fees and Services</u>	
PART IV	
<u>Item 15.</u>	<u>161</u>
<u>Exhibits and Financial Statement Schedules</u>	
<u>Item 16.</u>	<u>161</u>
<u>Form 10-K Summary</u>	<u>161</u>

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

We have included or incorporated by reference into this report, and from time to time may make in our public filings, press releases or other public statements, certain statements that may constitute forward-looking statements. These include without limitation those under **Business** in Part I, Item 1, **Risk Factors** in Part I, Item 1A, **Legal Proceedings** in Part I, Item 3, **Management's Discussion and Analysis of Financial Condition and Results of Operations** in Part II, Item 7, and **Quantitative and Qualitative Disclosures about Market Risk** in Part II, Item 7A. In addition, our management may make forward-looking statements to analysts, investors, representatives of the media and others. These forward-looking statements are not historical facts and represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond our control. We may, in some cases, use words such as **project**, **believe**, **anticipate**, **plan**, **expect**, **estimate**, **intend**, **should**, **would**, **could**, **potentially**, convey uncertainty of future events or outcomes to identify these forward-looking statements.

In connection with the **safe harbor** provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results to differ materially from those contained in any forward-looking statements made by us. Any such forward-looking statements are qualified by reference to the following cautionary statements.

Forward-looking statements in this report are subject to a number of risks and uncertainties, some of which are beyond our control, including, among other things:

changes in general economic, business or demographic conditions or trends in the U.S. or changes in the political environment, including changes in GDP, interest rates and inflation;

any event or occurrence that may limit our ability to pay or increase our dividend;

our ability to conclude a sufficient number of attractive growth projects, deploy growth capital in amounts consistent with our objectives in the prosecution of those and achieve targeted risk-adjusted returns on any growth project;

our ability to make, finance and integrate acquisitions and the quality of financial information and systems of acquired entities;

changes in patterns of commercial or general aviation air travel, including variations in customer demand;

our ability to achieve targeted cost savings through the implementation of a shared services center;

the regulatory environment, including U.S. energy policy, and the ability to estimate compliance costs, comply with any changes thereto, rates implemented by regulators, and the relationships and rights under and contracts with governmental agencies and authorities;

disruptions or other extraordinary or force majeure events and the ability to insure against losses resulting from such events or disruptions;

sudden or extreme volatility in commodity prices;

changes in competitive dynamics affecting our businesses;

changes in demand for chemical, petroleum and vegetable and tropical oil products, the relative availability of tank storage capacity and the extent to which such products are imported or exported;

technological innovations leading to changes in energy production, distribution and consumption patterns;

fluctuations in fuel costs, or the costs of supplies upon which our gas processing and distribution business is dependent, and the ability to recover increases in these costs from customers;

our ability to service, comply with the terms of and refinance at maturity our indebtedness, including due to dislocation in debt markets;

1

TABLE OF CONTENTS

our ability to make alternate arrangements to account for any disruptions or shutdowns that may affect suppliers facilities or the operation of the barges upon which our gas processing and distribution business is dependent;
our ability to implement operating and internal growth strategies;
environmental risks, including the impact of climate change and weather conditions;
the impact of weather events, including potentially hurricanes, tornadoes and/or seasonal extremes, including the impact these may have on wind and solar resources;
changes in electricity or other energy costs, including natural gas pricing;
unplanned outages and/or failures of technical and mechanical systems;
payment of performance fees, if any, and base management fees to the Manager that could reduce distributable cash if paid in cash or could dilute existing stockholders if satisfied with the issuance of shares;
changes in U.S. income tax laws;
work interruptions or other labor stoppages;
the inability of principal off-takers in the Contracted Power businesses to take and/or pay for the energy supplied;
our Manager's affiliation with the Macquarie Group or equity market sentiment, which may affect the market price of our shares;
our limited ability to remove the Manager for underperformance and the Manager's right to resign;
unanticipated or unusual behavior of municipalities and states brought about by financial distress; and
the extent to which federal spending reduces the U.S. military presence in Hawaii or flight activity at airports at which Atlantic Aviation operates.

Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. A description of risks that could cause our actual results to differ appears under the caption "Risk Factors" in Part I, Item 1A and elsewhere in this report. It is not possible to predict or identify all risk factors and you should not consider that description to be a complete discussion of all potential risks or uncertainties that could cause our actual results to differ.

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements. The forward-looking events discussed in this report may not occur. These forward-looking statements are made as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should, however, consult further disclosures we may make in future filings with the Securities and Exchange Commission (SEC).

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.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Macquarie Infrastructure Corporation (MIC) is the successor to Macquarie Infrastructure Company LLC (MIC LLC) pursuant to the conversion (the Conversion) of MIC LLC from a Delaware limited liability company to a Delaware corporation on May 21, 2015. MIC LLC was formed on April 13, 2004. Except as otherwise specified, all references in this Form 10-K to MIC, we, us and our refer (i) from and after the time of the Conversion, to Macquarie Infrastructure Corporation and its subsidiaries and (ii) prior to the Conversion, to the predecessor MIC LLC and its subsidiaries. Except as otherwise specified, all references in this Form 10-K to common stock or shares refer (i) from and after the time of the Conversion, to common stock and (ii) prior to the Conversion, to LLC interests.

MIC Level Strategy

We intend to own, efficiently operate and grow a diversified portfolio of infrastructure and infrastructure-like businesses with the aim of producing an attractive risk adjusted total stockholder return. We intend to achieve this by:

- providing optimal service levels while maintaining the highest safety, environmental and governance standards;
- prudently deploying and/or opportunistically recycling capital in efforts to:
 - grow our existing businesses; and
 - develop and acquire additional businesses;
 - optimizing price, volume and margin;
 - effectively managing expenses;
 - optimizing capital structures and tax planning; and
 - realizing both cross-selling and cost synergies across our businesses.

We expect these efforts over time, collectively, to produce growth in the amount of cash generated by our businesses and growth in our stockholder dividend.

General

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 (CP): 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.

In addition to the businesses we own and operate in these segments, we also invest in the development of new businesses. These new businesses may be added to one of our existing segments or sold (with the resulting capital

redeployed into any or all of our existing operations), or may, over time, form the basis of entirely new segments. For example, we have invested in a joint venture with a developer of solar power facilities, Intersect Power, with the expectation that the projects that may result from this will be either sold or added to our portfolio of contracted power facilities. The majority of these activities are being reported as a

3

TABLE OF CONTENTS

component of the segment to which any new businesses would be added. If an appropriate segment does not exist, the activities are recorded as a component of Corporate and Other.

We buy, develop and invest in the growth of our businesses based on a general assumption that we will own them indefinitely. It is neither our intent nor our expectation that we will divest of a business at a particular point in our ownership or as a result of having achieved certain targets, financial or otherwise. This view of ownership as a long-term relationship does not preclude sales or recycling of assets when we believe that we have either maximized the amount of value in the asset relative to our capability, or the asset is more highly valued by another owner. We may, depending on our ability to access additional debt or equity capital on what we consider attractive terms, sell businesses or assets to generate capital for reinvestment in new or existing businesses at what we believe could be improved returns. With respect to new developments, sales may occur more opportunistically. In general, we have redeployed the proceeds from these asset sales in the development of our remaining businesses either through investment in growth projects or acquisitions of small, bolt-on operations consistent with our view of MIC as a long-term owner.

Deployment of growth capital has been and is expected to continue to be an important part of our strategy and the creation of stockholder value. Our sources of growth capital include the retained capital generated by our businesses but not distributed as a cash dividend to our stockholders, capital generated through the issuance of additional debt and/or equity securities, or the proceeds from the sale of entire or portions of certain businesses. Over time, we expect to deploy growth capital of approximately \$350.0 million per year in projects and bolt-on acquisitions across all of our businesses. Importantly, although we find value in diversification and the generally uncorrelated nature of the businesses in our current portfolio, we are not obligated to invest in the growth of any one business or segment or the addition of any new segment.

Equally important, we seek to drive stockholder value by focusing on business performance improvement. These efforts include upgrading systems, implementing data analytics tools, developing cross business efficiencies and deployment of enterprise-wide procurement strategies among others. In 2017, we formed MIC Global Services (MGS), a new entity into which we have begun to consolidate support functions across all of our businesses. We believe that MGS will generate significant savings relative to the cost of maintaining these functions separately in each of our operating companies. A portion of the costs associated with the operation of MGS are allocated to each of our operating companies. Any unallocated MGS costs are reported as a component of our Corporate and Other segment. We expect the implementation of MGS to deliver expense reductions (both *Cost of Services/Product Sales* and *Selling, General and Administrative expenses*) of between \$10.0 million and \$15.0 million in 2018 relative to a 2016 baseline.

Businesses

Our businesses, in general, are defined by a combination of the following characteristics:

- ownership of long-lived, high-value physical assets that are difficult to replicate or substitute around;
- a platform for the deployment of growth capital;
- broadly consistent demand for their services;
- scalability, such that relatively small amounts of growth can generate disproportionate increases in earnings before interest, taxes, depreciation and amortization (EBITDA);
- the provision of basic, often essential services;
- generally predictable maintenance capital expenditure requirements; and
- generally favorable competitive positions, largely due to high barriers to entry, including:

high initial development and construction costs;
difficulty in obtaining suitable land on which to operate;
high costs of customer switching long-term concessions, leases or customer contracts; and
lack of immediate, cost-effective alternatives for the services provided.

TABLE OF CONTENTS

The different businesses that comprise our Company exhibit these above characteristics to different degrees at different times. For example, macro-economically correlated businesses like Atlantic Aviation may exhibit more volatility during periods of economic downturn than businesses with substantially contracted revenue streams. While not every business that we own will meet all of the general criteria described above, we seek to own a diversified portfolio of businesses that possesses a balance of these characteristics.

In addition to the benefits associated with these characteristics, net margins generated by most of our businesses tend to keep pace with historically normal rates of inflation. The price escalators built into many customer contracts, and the inflation and cost pass-through adjustments that are typically included as part of pricing terms, serve to insulate our businesses to a significant degree from the negative effects of inflation and commodity price risk.

Our Manager

We are a party to a Management Services Agreement with Macquarie Infrastructure Management (USA) Inc. (Manager). Our Manager is a member of the Macquarie Group, a diversified international provider of financial, advisory and investment services. The Macquarie Group is headquartered in Sydney, Australia and is a global leader in the management of infrastructure investment vehicles on behalf of third-party investors and advising on the acquisition, disposition and financing of infrastructure assets.

We pay our Manager a monthly base management fee based primarily on our market capitalization and holding company net debt and excluding debt in support of specific operating entities. For this, in accordance with the Third Amended and Restated Management Services Agreement (Management Services Agreement), the Manager provides normal ongoing corporate center functions such as facilities, technology, employee benefits and access to services including human resources, legal, finance, tax and accounting among others. Our Manager is responsible for and oversees the management of our operating businesses, subject to the oversight and supervision of our board of directors. Our Manager compensates and has assigned, or seconded, to us employees to serve as our chief executive officer and chief financial officer on a full-time basis. It also compensates and seconds or makes other personnel available as required. MIC has no employees at the holding company level.

Our Manager may also earn a performance fee if the quarterly total return for our stockholders (capital appreciation plus dividends) is positive and exceeds the quarterly total return of a U.S. utilities index benchmark, both in the quarter and cumulatively. If payable, the performance fee is equal to 20% of the difference between the benchmark return and the total return for our stockholders during the quarter. Per the terms of the Management Services Agreement, our Manager currently reinvests its fees, whether base or performance fees, in shares of our common stock. The Manager may elect to receive either base or performance fee, if any, in cash but may only change its election during a 20 trading day window following our earnings release. Any change would apply to fees incurred thereafter.

Our Businesses

Use of Non-GAAP measures

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

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

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

See Management's Discussion and Analysis of Financial Condition and Results of Operations *Results of Operations - Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) excluding non-cash items, Free Cash Flow and Proportionately Combined Metrics* in Part II, Item 7, for

TABLE OF CONTENTS

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.

IMTT

Industry Overview

Bulk liquid terminals provide an important link in the supply chain for a broad range of liquid commodities (see below). Bulk liquid terminals provide vital logistics services to vertically integrated petroleum product producers and refiners, chemical manufacturers, food processors and commodity traders. Customers typically pay terminal operators such as IMTT on an availability basis to provide tank capacity, loading and unloading access, and pipeline and trans-loading capacity, and also pay additional fees for ancillary services such as heating and blending.

Both domestic and international factors influence demand for bulk liquid terminals in the U.S. Demand for storage rises and falls according to local and regional consumption. In addition, import and export activity accounts for a material portion of the business. Shippers require storage for the staging, aggregation and/or distribution of products before and after transport. The extent of import/export activity depends on macroeconomic trends, such as currency fluctuations, as well as industry-specific conditions, such as supply and demand imbalances in different geographic regions. Demand for storage is also driven by fluctuations in the current and perceived future price and demand for the product being stored and the resulting temporal price arbitrage.

Potential entrants into the bulk liquid terminals business face several barriers. Strict environmental regulations, availability of suitable land with connectivity to pipeline and transport logistics, including marine road and rail infrastructure, local community resistance and initial investment costs may limit the construction of new bulk liquid terminals. These barriers are typically higher around waterways near major urban centers. As a consequence, new tanks are generally built where existing docks, pipelines and other infrastructure can support them. However, restrictions on land use, difficulties in securing environmental permits, and the potential for operational bottlenecks due to constraints on related infrastructure may limit the ability of existing terminals to expand the storage capacity of their facilities.

Business Overview

IMTT is one of the larger independent providers of bulk liquid terminal services in the U.S., based on capacity. IMTT handles products for a diverse range of domestic and foreign markets and end users. IMTT stores or handles primarily refined petroleum products, various commodity and specialty chemicals, renewable fuels and vegetable and tropical oils (collectively liquid commodities). Crude oil constitutes an immaterial portion of IMTT's overall storage and handling operations. The business operates a network of 19 terminals including 17 in the U.S. and two in Canada (one partially owned) with principal operations in the New York Harbor market and on the Lower Mississippi River.

Since our initial investment in IMTT in May 2006, we have deployed capital in the growth and development of additional storage capacity, facilities and related infrastructure (pipes, pumps, docks, etc.) and acquisitions of facilities in Illinois and a portfolio of terminals primarily in the U.S. Southeast (Epic Midstream LLC (Epic)). Consistent with IMTT's strategy below, we expect to be able to continue to deploy capital in the growth and expansion of storage capacity and capabilities provided that they generate attractive risk-adjusted returns.

IMTT also owns OMI Environmental Solutions (OMI), an environmental emergency response, industrial services, waste transportation and disposal business.

TABLE OF CONTENTS

IMTT (continued)