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FTAI - Q4 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 and Infrastructure Investors fourth quarter 2016 earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions). As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Mr. Alan Andreini. Sir you may begin.

Alan Andreini - *Fortress Transportation and Infrastructure Investors - MD, IR*

Thank you. I would like to welcome you to the Fortress Transportation and Infrastructure fourth quarter 2016 earnings call. Joining me here today are Joe Adams, our Chief Executive Officer, and Scott Christopher, our Interim 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.

In addition, we will be discussing some non-GAAP financial measures during the call today. The reconciliation of those measures to the most directly comparable GAAP measures can be found in the earnings supplement.

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 very 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 - *Fortress Transportation and Infrastructure Investors - CEO*

Thank you very much, Alan. To start this morning, I'm pleased to announce our seventh dividend as a public company and our 22nd consecutive dividend since inception. The dividend of $0.33 per share will be paid on March 20, based on a shareholder record date of March 10. 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.

Let's start with a review of the numbers for the quarter. The key metrics for us are adjusted EBITDA, and FAD, or Funds Available for Distribution. Adjusted EBITDA for Q4 2016 was $22.4 million, compared to Q3 2016 of $20.3 million and Q4 2015 of $15.1 million.

FAD was $20.5 million in Q4 versus $10.1 million in Q3 of 2016 and $10.1 million in Q4 of 2015. For the fourth quarter the $20.5 million FAD number was made up of $31 million from our equipment leasing portfolio, negative $1.2 million from our infrastructure businesses, and negative $9.3 million from corporate. $7 million of the $31 million for the equipment FAD was the result of a sale of one aircraft and one engine for a gain of $2.5 million. Part of the reduction in the negative FAD for the infrastructure was the capitalization of $2.2 million in municipal interest expenses at Jefferson.

Most importantly to take from the normalized Q4 FAD and adjusted EBITDA numbers is that our ability to generate adjusted EBITDA and FAD continues to grow stronger. And as I review the start of 2017 and our pipeline, I see that growth continuing.

Let's start with Aviation, our largest business segment. Aviation had a very good quarter. The portfolio is performing as well or better than expected, and we had a very active quarter for investing. We closed on $84 million in new assets, consisting of two aircraft, one airframe, and 15 engines.

Our annualized adjusted EBITDA and net income without gains as a percentage of average equity were 22.1% and 12.8% respectively, slightly less than last quarter and our target of 25% and 15% respectively largely due to new assets being added without immediate lease income. Since quarter-end or year-end, eight of the 15 engines we acquired in Q4 have gone on lease.

2017 is starting out busy as well. We currently have executed letters of intent on $130 million in assets, consisting of 12 aircraft and 17 engines, which we expect to close mostly in Q1 and Q2. Once this equipment under LOI is purchased, we expect run rate Aviation FAD to be over $160 million per annum, which equates to approximately the same EBITDA number.

It's worth noting that as our pace of business in Aviation continues to increase, our return objectives continue to be met. I'm more convinced than ever that in this narrow piece of a very large aviation leasing market, we have the best team in the industry and we are becoming a brand.

To that point, I would like to highlight one particular deal for you. In Q4 we finalized an 11-aircraft purchase, eight 737-800s and three A320s from a Chinese airline in an exciting transaction for us, which illustrates our capabilities and somewhat unique ability to add value. The 11 aircraft are all between 15 and 16 years old and were operated in China since delivery, but were taken out of service by the airline over the last year.

We intend to manage the airframe overhauls for nine of these aircraft. We will scrap two of the air frames, and manage all the engine shop visits over the coming months. We're also actively working to optimize the fleet value and are uniquely able to by utilizing engine swaps and engine module swaps.

Market demand for these aircraft is very strong and we've negotiated six-year leases covering all nine aircraft with six different airlines. We expect seven of these aircraft to enter revenue service in Q2 and the other two in the latter half of 2017. With quite a few aircraft of this vintage currently in China, we expect to see more of these type of deals.

As I've previously mentioned, we are also working hard to build proprietary maintenance expense savings programs to widen the moat around our Aviation business. We have four active programs today, the first three of which are producing savings for us today and our airline customers, and the fourth I believe represents significant upside in the years ahead.

They are -- number one, a maintenance and repair MRO partnerships to better manage engine overhauls resulting in lower costs and less variability in those costs. Moreover, our MRO partners have been remarketing our leased engine inventory to their own customers, which further increases our relationships and worldwide engine leasing footprint.

Second -- engine swaps, which are growing portfolio of engine allows us to do more often, with significant savings versus a full performance restoration. Third -- module swaps, which allow us to combine the best sections of two or more engines to create the strongest engine with the highest value. And fourth, a joint venture we established in Q4 with a leading aftermarket maintenance solutions provider for advanced engine repairs. The JV will be developing new cost saving programs for engine repairs with a particular focus on the large and growing pool of 737 and A320 aftermarket engines.

Moving on to offshore, this sector continues to be very challenging but we have had a couple of positive developments recently. In Q4, both the Pride and the Pioneer were off higher more than I'd like but we were recently awarded a six-month charter for the Pioneer commencing March 01.

The opportunity set for charters is definitely picking up, and we've had several close calls. So I think we're past the worst of this. The investment side, however, feels truly distressed and in December we invested $10.5 million in a company that purchased two 2013 built Super A Class jackup rigs at approximately 25% of the original cost of those rigs. That company is subsequently listed on the Norwegian over-the-counter market and its shares are quoted at a value today of approximately $19 million versus our cost of $10.5 million. Additionally, we're seeing similarly discounted vessel opportunities in the inspection repair maintenance market and we are looking.

On containers, in Q4 the secondary market for used boxes was very weak, around $650 per box, which caused us to take approximately $3 million in losses in that quarter. However, starting in Q1 of 2017, the price has rallied meaningfully to over $850 per box. So we don't expect any further losses on the remaining $4 million position. Even with the improved outlook for containers, we do not see this sector as an area of focus for us.

Let's now turn to Infrastructure. Jefferson made significant progress this quarter in each of four areas of business development. One, Canadian crude by rail, two crude blending and storage, three, ethanol by rail storage and distribution, and four, refined products to Mexico by rail.

Starting with Canadian crude by rail, in Q4 we moved 10 trains through the terminal of LLU or Lloydminster Undiluted, from Canada through the terminal and saw a meaningful up-tick in interests from oil traders, local refineries, and export opportunities by ship. As the spread between WCS and WTI widens out to about $14 or $15 per barrel, we have established relationships with regular buyers now.

In Q1 we've already delivered nine trains, and have bookings for seven in March. Additionally, we are focused on securing long-term supply and offtake contracts for a consistent flow of LLU through the terminal. And while we don't have such a contract in hand today, we believe it's just a matter of time. As Canadian production grows in 2017, and 2018 pipelines are becoming increasingly constrained which is good for rail.

Regarding crude oil and refinery feedstock storage, we have plans to deliver 1.1 million barrels of heated storage by the end of 2017, which would bring our total terminal storage to 1.8 million barrels. The first 500,000 barrels of these will be placed into service in October of 2017 under a long-term contract with a local refinery. We've also begun to work to add over 600,000 barrels of additional heated storage expected to be in service by the end of 2017. Demand for storage is very high and increasing our capacity will facilitate more flow and lead to longer-term commitments from more users.

Ethanol is shaping up really well. The construction is on time and under budget, and demand from several exporters and Green Plains is robust. We expect to contract up the current capacity of 15 trains per month before we open in July of 2017 and we'll explore expansion after that. The macroeconomics for export of ethanol to Brazil, India, the Philippines, and South Korea has never been better.

Also on refined products to Mexico, is a significant opportunity for Jefferson. We have commenced Phase I of a rail loading system, which would enable us to deliver 20,000 barrels per day of multiple grades of refined product for a $25 million to $30 million investment by the end of 2017. We've had detailed negotiations with users on multi-year minimum volume commitments to serve the large and growing markets in North and Central Mexico and we expect to sign with the first user shortly.

Phase I, fully utilized, should produce EBITDA of about $10 million to $15 million per annum. For an incremental $25 million investment, we could double that capacity to about 40,000 to 50,000 barrels today, per day if the market opportunity is there. We believe our location gives us a cost advantage over Houston and is close to major refineries, who are all looking at Mexico as an important long-term market.

To conclude, the overall outlook for Jefferson has never been better. Assuming continuing crude by rail from Canada, plus the commencement of the ethanol joint venture, and crude storage deals previously announced, plus Phase I of the refined products to Mexico business, we expect combined annual run rate EBITDA by Q4 2017 to be approximately $15 million to $20 million and growing thereafter.

The Central Maine and Quebec Railroad also had a good quarter. Revenue increased 9% year-over-year in Q4. And as service and reliability continue to improve, we've seen nice organic traffic growth across the board and head into 2017 with multiple business development initiatives for both existing and new customers. In particular, we see potential upside from wood pellet production and distribution to Europe and new chemical moves across the system.

Turning to Repauno now, we have begun construction to put the 186,000-barrel cavern into service for butane storage in Q2 of 2107. Total investment of $20 million in rail, truck rack, piping, and pumping equipment should produce a minimum of $2 million of annual EBITDA. But we see this as just the beginning with the tremendous growth in natural gas liquids coming out of the Marcellus region as our location is an ideal spot to establish a major hub for storage and distribution of butane, propane, ethane, and natural gasoline. Note that a decent amount of this initial $20 million investment in terminal infrastructure, particularly the rail and the truck rack will be available for use in future natural gas liquid projects.

We've also started work on the waterfront, which will enable us to build a new dock which can be used to load and unload ships for import or export of natural gas liquids and function as an import and export dock for autos and construction equipment. The negotiations for the auto terminal are going well. Repauno is becoming a very valuable property.

Regarding Hannibal, we continue to make good progress on permitting the 500-megawatt gas fired combined cycle power plant, which we expect will be approved by Q3 of this year. While we have a lease from the property owner covering the land needed for the power plant, we still have several open points with the current owner of the property. So we cannot predict whether or when we will purchase the entire site.

Before concluding, let me talk about our capital structure. At the end of January, we closed on a $100 million loan facility to fund the growth of Aviation. Shortly, we expect to raise approximately $250 million in unsecured term debt, which will replace the $100 million we just borrowed and give us another $150 million in long-term capital to continue growing the portfolio.

To sum it up, FTAI has an outstanding Aviation business, which is producing significant cash flow and earnings to pay the dividend, and our portfolio of infrastructure, port, and rail terminals will provide excellent earnings growth and value creation opportunities over the long-term. And because we have low leverage, we have access to debt capital to allow us to grow Aviation and build out infrastructure.

With that let me turn the call back to Alan.

Alan Andreini - *Fortress Transportation and Infrastructure Investors - MD, IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And our first question comes from Devin Ryan with JMP. Your line is now open.

Devin Ryan - *JMP - Analyst*

Hey, great thanks. Good morning everyone.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Good morning.

Devin Ryan - *JMP - Analyst*

Just to be clear here, in Jefferson the $15 million to $20 million, that's an annualized number? I just want to make sure of that. And then, appreciate all the detail at Jefferson. You mentioned a contract being a matter of time for Canadian crude by rail. I'm just curious if there's any other data points that you can provide or specific conversations. You're having to (inaudible) comfort, or is that just kind of a bigger picture comment? And then within that, is that captured in the EBITDA guidance for Jefferson?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

First of all, it is an annualized number $15 million to $20 million is annualized for the year. With respect to the Canadian crude by rail, we do have conversations that are active and we also have been are running test trains. So before a refiner will commit to the use a specific crew, they want to run it through the system. And I think that's a good sign, a positive sign because to go that step means people are serious and they're looking at it. So I would say that the long term attitude of people about accessing that Canadian crude is good, but again that's it's not a contract yet until it is a contract. And in the run rate number, we have built in some amount of crude from Canada. But we have not built in a large new deal into that.

Devin Ryan - *JMP - Analyst*

Okay, terrific, very helpful. And then just on the Aviation, you guys have had some great momentum there. Once you close the current backlog, I think that book will be about $700 million. So I'm curious. When you think about just some of the I guess the recent debt issue will go towards expanding that, but how should we think about the trajectory from here once that existing backlog is closed? Should that continue to accelerate or are we kind of getting to a point where that might start to slow just given that orders of magnitude of how big it already is?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

I feel like a regular investment rate for us would be probably $200 million, $250 million a year of new deals. And then, I think as I've mentioned number of times I believe that the market for the 737-700, 800 and A320 market is we're at the very front-end of that. And the Air China deal, whoops, was an illustration of that, which is that there's a lot of 15 year old equipment that's going to be coming into the market, which can be moved on to other lessors -- or other airlines, lessees. So I think that market will continue to present some very significant opportunities for us, which I think is above and beyond what I would say as the normal rate of investing.

Devin Ryan - *JMP - Analyst*

Got it. Okay interesting. And then just last quick one. The JV that you announced in Aviation in the quarter, how should we think about the return on that or the trajectory? Is that going to grow in size or can there more investment into that? Just how should we think about that?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

I don't, it shouldn't require more investment. But it could take a number of years before it really plays out. So -- but it's one that has a significant upside. It also has significant ramifications for our competitive advantage in the engine leasing space. So it has multiple dimensions to it, and it's a multi-year program. But I don't see more capital going needed for that.

Devin Ryan - *JMP - Analyst*

Got it. Okay, alright I'll hop back in the queue, thanks very much, Joe. I appreciate it.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Yes.

Operator

Thank you. Our next question comes from Justin Long with Stephens. Your line is now open.

Justin Long - *Stephens - Analyst*

Thanks and good morning. So maybe I'll start with a follow up on crude by rail. If you are successful in signing a contract, and it feels like you're pretty close, how long would it take before you would start to see a FAD impact from that contract? And could you also just remind us of the rough sensitivity to FAD, if you had one unit train per day?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Sure, I would say that the ramp-up on that could start but I think it would probably be more sort of fully producing by the end of this year or early next year. And one of the things that I noticed we are starting to work on 600,000 barrels of heated storage, which I think would also facilitate that activity and give us more options as to where to distribute the crude.

In terms of the sensitivity, one unit train is it $30 million?

Scott Christopher - *Fortress Transportation and Infrastructure Investors - Interim CFO*

Yes.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Something like that? It's rough, orders of magnitude.

Justin Long - *Stephens - Analyst*

Okay, great.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

$30 million EBITDA per annum. $25 million, $30 million, $35 million it will -- obviously there is a range.

Justin Long - *Stephens - Analyst*

Okay, that's helpful. And then I also wanted to ask about the Mexican energy deal. You mentioned that Phase I could ramp to $10 million to $15 million of EBITDA. How much of that amount is factored into the guidance for Jefferson to be at a $15 million to $20 million run rate in the fourth quarter?

Scott Christopher - *Fortress Transportation and Infrastructure Investors - Interim CFO*

That is factored in.

Justin Long - *Stephens - Analyst*

That entire amount, okay, and then thinking about that opportunity longer-term, I mean this is Phase I, but as you look at the addressable market, and the role FTAI can play in some of that energy reform that's going on in Mexico, how do you think about the bigger picture opportunity on that front?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

It's a little, I think I could construct scenarios where there's -- I can be very optimistic, but I also know that getting started is the best education in terms of getting in the business to understanding the market and understanding the players. So I would probably not want to give you a specific number until we've had a little bit more time in the market.

But Mexico is one of the biggest markets in the world for importing refined products. They do produce oil, but they've, the refining capacity keeps declining. So they're a bigger and bigger importer. And that fact is not lost on all of the Gulf Coast refineries who are sitting there with the capacity to serve those markets. So it's a big market.

Justin Long - *Stephens - Analyst*

Okay. And maybe lastly, we saw a benefit from gains on sale on Aviation during the quarter, so I wanted to ask about your outlook for gains on sale for this segment in 2017. I know it's something that's probably hard to predict, but is there any ballpark number you can provide on the expected contribution from gains on sale in Aviation when you look at FAD this year?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

I would say that it would be consistent with our historical experience, which is one or two assets a quarter, would not be crazy and gains -- and we've had a good experience with selling assets and one of the reasons that I mentioned is that when you have engines available, sometimes people come in and they want an engine and they don't want to lease it. And so that's often when we'll part with an asset. So I would say it's sort of no change from our historical activity.

Justin Long - *Stephens - Analyst*

Okay, and that $160 million run rate that you've mentioned, just to be clear, that excludes gains on sale.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Right.

Justin Long - *Stephens - Analyst*

Okay great. That is all I had today I appreciate the time.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Thanks.

Operator

Thank you. Our next question comes from Ari Rosa with Bank of America. Your line is now open.

Ari Rosa - *Bank of America - Analyst*

Hey good morning guys. Nice quarter. Just wanted to start out -- it sounds like some of the contracts, I'm sorry, some of the conversations that you've been having at Jefferson with some of the refining customers are heating up. What's the nature of those conversations? And for the refiners the outlook that they have, would you say there's a lot of overlap in terms of kind of what the opportunity set is that they're seeing? Is there a lot of talk about kind of Mexico in the changing political landscape? Maybe if you could just give a little bit of an update on what those conversations look like.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well I would say and just to generalize, the refineries there are very focused on North America and that includes Canada and Mexico. So the sourcing of the heavy crude -- the Gulf Coast refineries are very complex refineries. They have cracking units so they can handle any type of crude. And so they're always looking for the cheapest crude.

And Canada is on their radar many of them actually have made investments in reserves in Canada. So that continues to be a long-term orientation, particularly as you've seen Venezuela go through periods of events where it's less certain f they're going to be there or changing prices and how other crudes are priced globally.

Then on the refined products side, I think it really is Mexico is a growth opportunity for all of those refineries. So they're very keen to look to that market as it's been now opened up to many players other than just Pemex. So there's a high level of focus from there on the output side for serving those markets.

Obviously, Canada and Mexico are in the news every day with some new political discussion going on. So they're all very keen, paying attention to that and -- but the energy part of that is it really doesn't seem to be the main focus. It seems to be more of the job aspects of Mexico and they and the sort of the other, a part of this. But everybody is -- those are very important markets for them and for us.

Ari Rosa - *Bank of America - Analyst*

So just kind of continuing on that theme, obviously we're dealing with the shifting political landscape. Are there any risks from NAFTA potentially being renegotiated that you see, that could impact your business?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well not really. I think the energy part of that is always sort of talked about in a different, it's not the free importing of autos that is the energy part of it. It has not been the focus. There has been mention of this, potentially this border adjustment tax issue as to whether that would include oil or not include oil. That would have impacts on the price of WTI versus other crudes if that were to go into effect, which could be good for us. But no one really knows yet in any event. And as I said, it literally changes almost every day.

Ari Rosa - *Bank of America - Analyst*

Okay great we'll be excited to see the opportunities that emerge out of that.

Switching gears quickly to Aviation -- obviously you guys have done a great job in terms of growing that portfolio but now you're looking at it representing over 100% of FAD. Is there a point at which you become concerned about being overly exposed to that? And I guess along those lines is there a point at which you would say okay, we're going to stop buying so we can build out other parts of the portfolio because we're overly exposed? Or is the idea there just continue to grow as long as the market opportunity is there?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

I think it is the latter. I mean we are a disciplined buyer, so we don't allocate a specific amount to any sector. But as long as there's good opportunities and we've seen a very good investment pipeline in the near -- in the last quarter, fourth quarter and this quarter. So as long as that continues, I think we will continue to be investing in that sector. And while there's not as much cash flow out of the infrastructure side, there's significant value there and we will continue to invest there as long as the projects are as good as they appear to be.

Ari Rosa - *Bank of America - Analyst*

And what would you look to in terms of signals that that market might be changing, or that those market conditions might be turning unfavorable?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Which market?

Ari Rosa - *Bank of America - Analyst*

For Aviation.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Oh. Well I'd say that the biggest macro driver is always passenger traffic growth globally. And that is what fuels demand for aircraft. So if -- and that historically has been pretty consistently growing at 5% to 6% per annum. Actually in recent near-term, it's been higher than that, which is a lot driven by emerging middle class populations in China, India, Middle East, Africa, South America. So it's not one market it is not dependent on or anything. And really it is -- people like to travel. It's a thing that people enjoy doing when they have discretionary income.

So from a macro-point of view, and that when you look at the 737-700, 800 and A320 markets which I've talked a lot about, if you have that kind of consistent traffic growth across the globe, those planes will be flying for 30, 40 years. So they are fantastic assets to invest in.

Ari Rosa - *Bank of America - Analyst*

And on the supply side, it sounds like it's still supply constrained, especially for the 737s and A320s, is that correct?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well they are sold out for many years. They are coming out with a new model, so that the MAX and the Neo will come into production and they are in production now. But they're starting to ramp up. So the existing fleet of 737-700s and 800s will be fixed -- beginning, starting next year, they'll end the production of those. So that supply is, will be there won't be any new ones after that. But there are new assets coming in to the market. I'm just saying that if you grow, if traffic grows globally, as it has been, that production is needed to take care of that growth.

Ari Rosa - *Bank of America - Analyst*

Okay, great. That's helpful. Thank you.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Yes.

Operator

Thank you. Our next question comes from Chris Wetherbee with Citi, your line is now open.

Chris Wetherbee - *Citigroup - Analyst*

Hey, thanks. Good morning guys. Joe, I wanted to pick up on, back on Jefferson and sort of think about the run rate you guys have thought about for the fourth quarter and maybe translating that back to FAD and getting a sense of maybe when we could see Jefferson or infrastructure as sort of a whole start to break even and turn positive. Is that sort of a maybe two part question here -- do we start to see that turn happen mid-year 2017 where infrastructure as a whole begin to be break-even or positive from a FAD perspective? And what would the $15 million to $20 million on EBITDA run rate translate to from a FAD perspective for Jefferson?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

There shouldn't be a big difference between EBITDA and FAD at Jefferson.

Chris Wetherbee - *Citigroup - Analyst*

Okay.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

There's some -- a little bit of interest expense that is not and some of that has been capitalized. So I don't think, it shouldn't be a huge difference. But I think that the, when that, the reason we picked the fourth quarter is because a number of those projects really started up in the third quarter -- the ethanol storage, the ramp and the refined products. So I think that you should see those in the fourth quarter.

Chris Wetherbee - *Citigroup - Analyst*

Okay. And then from an infrastructure standpoint, in terms of break-even I mean you guys were close but I think there was some one-timers in there but as we get into sort of mid-year does it really need to be sort of towards the end of the year, towards the fourth quarter where we start to see infrastructure as a whole contribute to FAD on a positive way?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

I would lean more towards the fourth quarter.

Chris Wetherbee - *Citigroup - Analyst*

Okay. That's helpful. Maybe touching on sort of, one of the last questions that you got about the mix of business. It seems like infrastructure is sort of at a turning point here where we have a line of sight to significant contribution potential. Let's call it over the next 18 or 24 months or so. Just to make sure I'm clear, from an Aviation versus infrastructure investment standpoint, there's no reason to think that there would be a material change to the way you think about allocating investment dollars to those different divisions. I mean aviation is putting off a good return, very solid return you have a very big business, you talked about building a brand there.

But you do have a lot of opportunity, it seems like on the infrastructure side, it seems like you're willing to put capital to work there too. So I just wanted to make sure that I'm kind of clear on how you guys are thinking about your investment opportunities over the course of that next like 18 to 24 months.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Yes, no. I think you're right and we will continue to invest in both if the return profiles are as they have been.

Chris Wetherbee - *Citigroup - Analyst*

Okay, okay. That's helpful. I guess my last question -- just wanted to kind of circle back to the refined product opportunity going into Mexico and thinking about that from a sourcing perspective. Is there an opportunity to get a little bit more deeply connected to the refinery who is sort of just nearby from a Jefferson standpoint? Or is it better to kind of leave the door open for sourcing throughout the region? It sounds like there's opportunities from multiple refiners from a sourcing perspective of refined product. I just want to get a sense of maybe how that relationship with Exxon and sort of other players in the space or in the region kind of plays out.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

I think we view it as an opportunity to get closer to the local refineries. We have a very good asset. It's a great asset from a rail point of view. It's got three class one service, it's unique. It's got the water. It's a scarce asset. So using that word to build the proper relationships with our neighbors is probably the highest and best use.

Chris Wetherbee - *Citigroup - Analyst*

Okay, got it right. That's all for me. Thanks for your time today guys. Appreciate it.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Thanks.

Operator

Thank you. (Operator Instructions). And our next question comes from Robert Dodd with Raymond James. Your line is now open.

Robert Dodd - *Raymond James - Analyst*

Hi guys, couple of questions about the airline business. On the utilization, obviously I mean it's been running, I think particularly on the engines a little bit above the historic targets. I guess one of the questions is, is that a function of you just want to keep ten, 15 engines available? But the more you have, the more utilization you can run. And so is it just a function of growth and that we should expect actual utilization to run above historic targets in this kind of a new level going forward as that business grows substantially?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

I think there is some potential upside, we've always said that we're going to target the engines side 50% to 75% utilization and we still believe that. As we get bigger I do think that the opportunity to push that number towards the higher end is better. So I hope we continue to fine tune that, but I still wouldn't change fundamentally how we operate.

Scott Christopher - *Fortress Transportation and Infrastructure Investors - Interim CFO*

And on the aircraft side, we expect to be in the high 90s. You want to have your aircraft (inaudible) that's just the way, it's important. That's the way we will run that business.

Robert Dodd - *Raymond James - Analyst*

Right, got it. Another one. on the tax policy side in the US. Obviously, it's an unlevered business for you -- well, you've just done some leverage on it but -- and the deductibility. Do you think that's going to influence other lessors because most airlines (inaudible) pretty high leverage, not most of them are US based, mind -- but do you think that could affect either the leasing market in general, the lessors, the airlines in the US, and maybe that expands the opportunity if obviously the interest deductibility goes away or things we've learned there?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well I think aside from tax policy, the US letting market has never been a great market to be leasing into. So I don't think that will change as -- in matter of fact, as the big four airlines get here and make more money, they probably become less interested and less a good target for leasing. So our market and most leasing companies have always targeted, the global airline market and I don't think that will change with any US (inaudible).

Robert Dodd - *Raymond James - Analyst*

Got it thank you.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Yes.

Operator

Thank you. I'm showing no further questions in queue at this time. I would like to turn the conference back over to Mr. Alan Andreini for closing remarks.

Alan Andreini - *Fortress Transportation and Infrastructure Investors - MD, IR*

Thank you all for participating in today's conference call. We look forward to updating you after Q1.

Operator

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