

**Discovery Group**

**Cadiz Eases from Development to Deployment; Resetting Model with Expected Water Flow in 2026**

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STOCK DATA			
Market Cap (mil)	\$210.8		
52-Week Range	\$2.12–\$5.80		
3-Month ADTV	207,283		
Shares Outstanding (mil)	67.8		
Float (%)	62.4		
Short Interest	5,135,008		
Enterprise Val. (mil)	\$271.4		
Fiscal Year-End	December		
FINANCIAL DATA			
EPS (GAAP)	2023A	2024E	2025E
1Q	\$(0.19)	\$(0.12)A	\$(0.09)
2Q	\$(0.13)	\$(0.10)	\$(0.08)
3Q	\$(0.12)	\$(0.10)	\$(0.08)
4Q	\$(0.13)	\$(0.09)	\$(0.08)
FY	\$(0.56)	\$(0.41)	\$(0.34)
FY	2023A	2024E	2025E
Rev. (mil)	\$2.0	\$16.4	\$12.7
EV/Revenue	133.6x	17.4x	24.3x
EBITDA (mil)	\$(18.1)	\$(8.4)	\$(14.5)
EBITDA %	(9.1)%	(0.5)%	(1.1)%
EV/EBITDA	(14.5)x	(34.2)x	(21.3)x
BV/Share	\$0.60	\$0.25	\$(0.09)
BALANCE SHEET DATA			
	1Q24		
Cash & Equivalents	\$19.3		
Accounts Receivable	\$1.6		
Total Debt	\$135.4		
Shareholders' Equity	\$36.6		

**Summary and Recommendation**

We issue a progress update on Buy-rated Cadiz, Inc. (CDZI, \$15 PT), which is entering the end game of what has been a multi-decadal Cadiz Project pursuit to connect its 30,000-acre ranch in the Mojave to California’s flagging water distribution infrastructure, introducing 2.5M AF (acre-feet; each acre-foot equals 326,000 gallons) of new supply and 1M AF of new storage capacity to the state. New in 2024 are the company’s first definitive water supply agreements, converting long-percolating option agreements and MOUs to term sheets and commercial contracts, primarily with public agency partners. We also should mention that the company’s ATEC water filtration business acquired in 2022 is on track to generate \$15M of revenue and over \$3M of EBITDA in 2024, able to serve massive systems as well as smaller-scale projects, such as the Cascade Project in Gresham, Oregon, a recent \$5M win. Also, in February, CDZI took in \$20M of additional senior secured convertible from top shareholder Heerema (which owns 35% of the common) while extending all debt maturities to 2027. Altogether, CDZI has contracted for over 16k AF of water supply, representing 65% of Northern Pipeline capacity, which running full at 25k AF/yr represents an upcoming recurring stream coming in at \$850/AF net of costs to CDZI. Primary initial customers are Golden State Water Company (which amended and exercised an option held since 2010), Fontana Water Company, and Santa Margarita Water District—each of which are taking 5k AF of supply. Golden State serves Barstow and will take its water through the Northern Pipeline, with Cadiz handing off directly into the Pipeline and to Fenner Gap Mutual Water Company, the Joint Powers Authority (JPA) operating the pledged assets, which will wheel the water up to Barstow. Fontana and SMWD will purchase water from the Project via the East Branch of the State Water Project through an exchange with one or more contractors under the California State Water Project.

**Key Points**

- **On tap in 2024.** Likely coming later this year are more water purchase agreements, such as we have seen with Solstra, which is developing private land near Vandenberg Space Force Base, and we believe there is ample demand for the remaining water that CDZI can make available through the Northern Pipeline. Also, on tap for 2024 is for Cadiz, via the Fenner Gap JPA, to secure Project funding, likely aided by state and/or federal grants, and nonetheless with a low cost of project capital, where end users’ ~\$1,700/AF price of delivered water reflects not only the \$850/AF cost to CDZI but also conveyance, maintenance, and debt service. Initial project capital needs are for long lead time items such as two pumps that will be needed to pump water uphill to Barstow. CDZI itself already has completed three new well fields at its Cadiz Ranch, creating 36k AFY production capacity, more than enough to serve both the JPA and existing, expanded agricultural operations, where Cadiz has put hemp on hold but is farming some 750 acres of alfalfa currently, with 220 acres of prior CBD-rich hemp operations reverting to alfalfa in 2025. Moreover, we believe the recent conversion from diesel to natural gas makes farming more profitable for the company, which in the future could look to adding solar farming and/or hydrogen development to its footprint.
- **Go north, then go south.** While CDZI won its Northern Pipeline right-of-way battle with anti-developmentalists posing as environmentalists, regaining transport authority from the Bureau of Land Management, remaining logistical steps to get water flowing to Barstow include for the Fenner Gap JPA to apply for conversion from gas to water transport, as well as what we see as a minor CEQA piece that Fenner and end customers will have to complete, for introduction of outside, filtered water into likely destinations such as the High Desert Water Bank. Altogether, project financing, pump and pipeline integration, and final permitting are processes that will likely lead to initial water conveyance in 2026. At \$850/AF on 25k AF to

Analyst certification and important disclosures can be found on pages 5 - 8 of this report.

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CDZI, that's a long-awaited \$21M/year of recurring FFO that we believe makes the company FCF positive. The real payoff to Californians, however, is when CDZI is able to add a Southern Pipeline to the equation, providing a conjunctive link between the Colorado Aqueduct and the State Water Project. We look for eventual return of Metropolitan Water District (MWD) support of this initiative, with everything to gain by participating in a JPA that will introduce a new supply of water to the region. Even more important than supply, moreover, is the conjunctive use aspect, enabling 1M AF of much-needed water bank storage capacity to a state where prior, predictable snowmelt patterns no longer reliably support a stressed distribution infrastructure. CDZI technically already can accept storage reservations (at a \$1,500/AF market rate, applicable to 1M AF of capacity, a \$1.5B opportunity) today, but we believe demand will be higher when the property is connected to the Colorado Aqueduct as well, enabling flexible flow of operations.

## Valuation

Our \$15 PT equates to a \$1.2B projected EV for Cadiz at the end of FY25, at a time when we see the company moving from a multi-decadal development and investment mode to finally starting to meaningfully monetize its valuable groundwater resources—in the process becoming a vital new water storage and distribution link—helping to solve California’s broken water infrastructure problem and bring new, clean groundwater to disadvantaged communities along its northern pipeline route flowing from its Mojave Desert Cadiz Ranch toward the Central Valley, while preparing to do the same via a new southern pipeline, in essence connecting the State Water Project to the Colorado River Aqueduct—completing Cadiz’ transformation into a productive conjunctive use basin, not only linking Northern and Southern California water distribution infrastructure, but also introducing another 2.5M AF of supply and 1M AF of new storage capacity to the state.

## Risks

**Debt** – The company’s debt is secured by substantially all of its assets. Should the company fail to make timely payments on its debt, or otherwise fail to comply with its debt agreements, debtholders may foreclose on the company’s assets.

**Financing Needs** – The company will require financing until its asset development has begun to produce revenues and operating profits. If the company is unable to obtain financing to successfully develop its land and water resources, the company may be unable to continue as a going concern.

**Financial Results** – The company’s land and water development activities have not generated material operating results and continue to incur net losses. The company’s agricultural operations have generated de minimis revenues.

**Growth Plan** – There are many factors that may impact the company’s ability to achieve its stated growth objectives.

**Loss of Key Personnel** – In our opinion, the current management team will be instrumental in executing the company’s growth strategy. The resignation of a key member of management would have a negative impact on the company.

**Regulatory** – The development of the company’s land and water resources assets are subject to local, state, and federal government approvals and permits – which could be denied by the government, or may compete against other government interests and/or objectives. Further, third parties may challenge proposed plans and/or approvals, which could cause delays and increase the costs of the company’s development efforts, or could prohibit development entirely.

**Weather** – The aquifer system underlying the company’s property is naturally recharged by precipitation (both rain and snow). Thus, the availability of water supplies could differ from year-to-year due to natural hydrological variability.

**Refer to the company's SEC filings, particularly its 10-K filing, for a discussion of additional risks.**

**Cadiz, Inc. Model -- CDZI**

**B. Riley Securities**

<b>(\$000's)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>Mar Q1a</b>	<b>Jun Q2e</b>	<b>Sep Q3e</b>	<b>Dec Q4e</b>	<b>FY24e</b>	<b>Mar Q1e</b>	<b>Jun Q2e</b>	<b>Sep Q3e</b>	<b>Dec Q4e</b>	<b>FY25e</b>	<b>Mar Q1e</b>	<b>Jun Q2e</b>	<b>Sep Q3e</b>	<b>Dec Q4e</b>	<b>FY26e</b>	
<b>Revenue:</b>																			
Revenues from water delivery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,636	5,636	11,272
Carry-over storage fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Land and water resources; Cadiz direct farming re	-	694	1,251	636	400	220	600	1,856	70	500	420	700	1,690	70	500	420	700	1,690	
Water treatment (ATEC)	564	652	740	485	3,600	5,000	5,500	14,585	3,000	3,000	2,500	2,500	11,000	2,200	2,200	2,200	2,200	8,800	
<b>Total Revenue</b>	<b>564</b>	<b>1,501</b>	<b>1,991</b>	<b>1,121</b>	<b>4,000</b>	<b>5,220</b>	<b>6,100</b>	<b>16,441</b>	<b>3,070</b>	<b>3,500</b>	<b>2,920</b>	<b>3,200</b>	<b>12,690</b>	<b>2,270</b>	<b>2,700</b>	<b>8,256</b>	<b>8,536</b>	<b>21,762</b>	
Cost of water delivery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of carry-over storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of land and water resources revenue	-	1,367	2,241	660	292	161	438	1,551	51	315	265	441	1,072	51	315	265	441	1,072	
Cost of water filtration technology revenue	-	-	646	344	2,340	3,250	3,575	9,509	1,950	1,950	1,625	1,625	7,150	1,430	1,430	1,430	1,430	5,720	
Cost of revenue	-	<b>2,067</b>	<b>2,887</b>	<b>1,004</b>	<b>2,632</b>	<b>3,411</b>	<b>4,013</b>	<b>11,060</b>	<b>2,001</b>	<b>2,265</b>	<b>1,890</b>	<b>2,066</b>	<b>8,222</b>	<b>1,481</b>	<b>1,745</b>	<b>1,695</b>	<b>1,871</b>	<b>6,792</b>	
Gross profit	564	(566)	(896)	117	1,368	1,809	2,087	5,381	1,069	1,235	1,030	1,134	4,468	789	955	6,561	6,665	14,970	
Depreciation	423	654	1,247	295	328	328	328	1,279	353	353	353	353	1,412	378	378	378	378	1,512	
SG&A	17,653	15,342	18,797	4,730	4,700	4,700	4,700	18,830	4,863	4,863	4,863	4,863	19,450	5,018	5,018	5,018	5,018	20,070	
<b>EBIT</b>	<b>(17,512)</b>	<b>(16,562)</b>	<b>(20,940)</b>	<b>(4,908)</b>	<b>(3,660)</b>	<b>(3,219)</b>	<b>(2,941)</b>	<b>(14,728)</b>	<b>(4,147)</b>	<b>(3,981)</b>	<b>(4,185)</b>	<b>(4,082)</b>	<b>(16,394)</b>	<b>(4,607)</b>	<b>(4,441)</b>	<b>1,166</b>	<b>1,270</b>	<b>(6,612)</b>	
Nonrecurring, noncash, or unusual items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating income	(17,512)	(16,562)	(20,940)	(4,908)	(3,660)	(3,219)	(2,941)	(14,728)	(4,147)	(3,981)	(4,185)	(4,082)	(16,394)	(4,607)	(4,441)	1,166	1,270	(6,612)	
Interest income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	9,481	8,263	4,944	1,939	1,939	1,939	1,939	7,756	2,339	2,339	2,339	2,339	9,356	2,739	2,739	2,739	2,739	10,956	
Transaction expense	3,304	-	5,331	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income (expense)	-	(220)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income before provision for income taxes	(30,297)	(24,825)	(31,435)	(6,847)	(5,599)	(5,158)	(4,880)	(22,484)	(6,486)	(6,320)	(6,524)	(6,421)	(25,750)	(7,346)	(7,180)	(1,573)	(1,469)	(17,568)	
Income tax expense	10	(33)	11	3	-	-	-	3	-	-	-	-	-	-	-	-	-	-	-
<b>Income from continuing operations</b>	<b>(30,307)</b>	<b>(24,792)</b>	<b>(31,446)</b>	<b>(6,850)</b>	<b>(5,599)</b>	<b>(5,158)</b>	<b>(4,880)</b>	<b>(22,487)</b>	<b>(6,486)</b>	<b>(6,320)</b>	<b>(6,524)</b>	<b>(6,421)</b>	<b>(25,750)</b>	<b>(7,346)</b>	<b>(7,180)</b>	<b>(1,573)</b>	<b>(1,469)</b>	<b>(17,568)</b>	
Pref stock div; equity method (SoCal Hemp); extra i	(3,679)	(5,106)	(5,106)	(1,265)	(1,288)	(1,265)	(1,288)	(5,106)	200	800	800	800	2,600	200	800	800	800	2,600	
Net income	(33,986)	(29,898)	(36,552)	(8,115)	(6,887)	(6,423)	(6,168)	(27,593)	(6,286)	(5,520)	(5,724)	(5,621)	(23,150)	(7,146)	(6,380)	(773)	(669)	(14,968)	
Suppl Disc: Pro-forma pre-tax income	(30,297)	(24,825)	(31,435)	(6,847)	(5,599)	(5,158)	(4,880)	(22,484)	(6,486)	(6,320)	(6,524)	(6,421)	(25,750)	(7,346)	(7,180)	(1,573)	(1,469)	(17,568)	
Earnings per share:																			
GAAP	(0.84)	(0.60)	(0.56)	(0.12)	(0.10)	(0.10)	(0.09)	(0.41)	(0.09)	(0.08)	(0.08)	(0.08)	(0.34)	(0.11)	(0.09)	(0.01)	(0.01)	(0.22)	
Diluted shares outstanding	40,561	49,871	65,656	66,997	67,097	67,197	67,297	67,147	67,397	67,497	67,597	67,697	67,547	67,797	67,897	67,997	68,097	67,947	
Diluted shares out, pro forma for preferred stock co	42,136	51,978	67,148	68,503	68,603	68,703	68,803	68,653	68,903	69,003	69,103	69,203	69,053	69,303	69,403	69,503	69,603	69,453	
<b>Common Size:</b>																			
Gross margin	100.0%	-37.7%	-45.0%	10.4%	34.2%	34.7%	34.2%	32.7%	34.8%	35.3%	35.3%	35.4%	35.2%	34.8%	35.4%	79.5%	78.1%	68.8%	
SG&A expense	3130.0%	1022.1%	944.1%	421.9%	117.5%	90.0%	77.0%	114.5%	158.4%	138.9%	166.5%	152.0%	153.3%	221.0%	185.8%	60.8%	58.8%	92.2%	
EBIT margin	-3105.0%	-1103.4%	-1051.7%	-437.8%	-91.5%	-61.7%	-48.2%	-89.6%	-135.1%	-113.7%	-143.3%	-127.5%	-129.2%	-202.9%	-164.5%	14.1%	14.9%	-30.4%	
<b>EBITDA margin</b>	<b>-2188.3%</b>	<b>-933.6%</b>	<b>-907.8%</b>	<b>-296.3%</b>	<b>-51.8%</b>	<b>-31.3%</b>	<b>-22.2%</b>	<b>-51.0%</b>	<b>-119.6%</b>	<b>-100.2%</b>	<b>-127.1%</b>	<b>-112.7%</b>	<b>-114.2%</b>	<b>-180.9%</b>	<b>-145.9%</b>	<b>20.2%</b>	<b>20.7%</b>	<b>-21.2%</b>	
Tax rate	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Growth Y/Y</b>																			
Net sales	4.3%	166.1%	32.6%	762.3%	394.4%	1318.5%	791.8%	725.8%	173.9%	-12.5%	-44.1%	-47.5%	-22.8%	-26.1%	-22.9%	182.7%	166.8%	71.5%	
EBIT	49.0%	-5.4%	26.4%	18.2%	-34.5%	-44.1%	-52.1%	-29.7%	-15.5%	8.8%	30.0%	38.8%	11.3%	11.1%	11.6%	-127.9%	-131.1%	-59.7%	
EBITDA	33.0%	13.5%	29.0%	-5.0%	-59.5%	-65.3%	-75.1%	-53.6%	10.6%	69.1%	127.4%	166.4%	73.0%	11.8%	12.4%	-144.9%	-149.1%	-68.2%	
FCF	79.2%	-49.0%	15.8%	-12.9%	-30.5%	-28.3%	-39.7%	-28.5%	-6.6%	-1.4%	8.2%	4.2%	0.6%	17.7%	16.3%	-97.6%	-107.3%	-41.7%	
Net income	-15.5%	-18.2%	26.8%	-36.9%	-23.0%	-25.6%	-31.0%	-28.5%	-5.3%	12.9%	26.5%	31.6%	14.5%	13.3%	13.6%	-75.9%	-77.1%	-31.8%	
EPS	-28.8%	-33.4%	-3.8%	15.8%	-23.6%	-26.2%	-31.5%	-30.1%	-5.8%	12.2%	25.7%	30.8%	13.8%	12.6%	12.9%	-76.0%	-77.2%	-32.2%	
<b>Selected Financial Information</b>																			
Price	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32	\$ 2.32
Market cap	119,702	133,166	152,322	155,433	155,665	155,897	156,129	155,781	156,361	156,593	156,825	157,057	156,709	157,289	157,521	157,753	157,985	157,637	
Cash, restricted cash, & investment in unconsol JV	20,832	13,782	4,636	19,346	14,613	10,218	30,701	30,701	25,599	20,933	16,180	11,473	11,473	20,469	15,041	14,927	15,269	15,269	
Debt and preferred; 8.875% cumul per pref at \$57.5	122,939	127,335	118,270	135,352	135,702	136,072	161,462	161,462	161,862	162,262	162,662	163,062	163,062	178,062	178,062	178,062	178,062	178,062	
<b>Enterprise value</b>	<b>221,809</b>	<b>246,719</b>	<b>265,956</b>	<b>271,439</b>	<b>276,754</b>	<b>281,751</b>	<b>286,890</b>	<b>286,542</b>	<b>292,624</b>	<b>297,922</b>	<b>303,307</b>	<b>308,646</b>	<b>308,298</b>	<b>314,882</b>	<b>320,542</b>	<b>320,888</b>	<b>320,778</b>	<b>320,430</b>	
Sales (LTM)	564	1,501	1,991	2,982	6,173	11,025	16,441	16,441	18,390	17,890	15,590	12,690	12,690	11,890	11,090	16,426	21,762	21,762	
Depreciation & Amortization	423	672	1,369	328	328	328	328	1,312	353	353	353	353	1,412	378	378	378	378	1,512	
Share-based compensation	4,747	1,876	1,496	1,259	1,259	1,259	1,259	5,036	122	122	122	122	488	122	122	122	122	488	
<b>EBITDA</b>	<b>(12,342)</b>	<b>(14,014)</b>	<b>(18,075)</b>	<b>(3,321)</b>	<b>(2,073)</b>	<b>(1,632)</b>	<b>(1,354)</b>	<b>(8,380)</b>	<b>(3,672)</b>	<b>(3,506)</b>	<b>(3,710)</b>	<b>(3,607)</b>	<b>(14,494)</b>	<b>(4,107)</b>	<b>(3,941)</b>	<b>1,666</b>	<b>1,770</b>	<b>(4,612)</b>	
EBITDA (LTM)	(12,342)	(14,014)	(18,767)	(18,591)	(15,548)	(12,472)	(8,380)	(8,380)	(8,730)	(10,163)	(12,241)	(14,494)	(14,494)	(14,929)	(15,364)	(9,988)	(4,612)	(4,612)	
EV/EBITDA (LTM) ratio	(18.0)	(17.6)	(14.5)	(14.6)	(17.8)	(22.6)	(34.2)	(34.2)	(33.5)	(29.3)	(24.8)	(21.3)	(21.3)	(21.1)	(20.9)	(32.1)	(69.6)	(69.6)	
Capital expenditures	23,472	3,589	5,787	186	196	191	191	764	206	306	256	256	1,024	271	371	321	321	1,284	
Accounts receivable, incl unbilled	270	454	904	1,581	1,333	1,740	2,033	2,033	1,023	1,167	973	1,067	1,067	757	900	2,752	2,845	2,845	
Prepays and other	691	696	2,614	3,749	3,349	2,949	2,949	2,949	2,949	2,949	2,949	2,949	2,949	2,949	2,949	2,949	2,949	2,949	
Current liabilities, excl debt	2,406	5,499	5,653	8,403	8,205	8,530	8,765	8,765	7,957	8,072	7,917	7,992	7,992	7,744	7,858	9,340	9,414	9,414	
<b>Free cash flow</b>	<b>(45,220)</b>	<b>(23,063)</b>	<b>(26,711)</b>	<b>(5,463)</b>	<b>(4,733)</b>	<b>(4,395)</b>	<b>(4,517)</b>	<b>(19,108)</b>	<b>(5,101)</b>	<b>(4,666)</b>	<b>(4,753)</b>	<b>(4,707)</b>	<b>(19,227)</b>	<b>(6,004)</b>	<b>(5,428)</b>	<b>(114)</b>	<b>342</b>	<b>(11,204)</b>	
FCF (LTM)	(45,220)	(23,063)	(26,711)	(25,899)	(23,823)	(22,085)	(19,108)	(19,108)	(18,747)	(18,679)	(19,038)	(19,227)	(19,227)	(20,130)	(20,892)	(16,253)	(11,204)	(11,204)	
EV/FCF (LTM) ratio	(4.9)	(10.7)	(10.0)	(10.5)	(11.6)	(12.8)	(15.0)	(15.0)	(15.6)	(15.9)	(16.1)	(16.1)	(16.0)	(15.6)	(15.3)	(19.7)	(28.6)	(28.6)	
Shareholders' equity	40,609	34,223	39,967	36,611	29,724	23,301	17,133	17,133	10,848	5,328	(396)	(6,016)	(6,016)	(13,162)	(19,541)	(20,314)	(20,984)	(20,984)	
P/E	(3.1)	(4.7)	(4.8)	(5.5)	(5.9)	(6.3)	(6.9)	(6.9)	(7										

\*Closing price of last trading day immediately prior to the date of this publication unless otherwise indicated.

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