Collin Mings:

Thank you, Chris. We're now going to have Dave, Mark. Chris is going to stay up here with us as well as Doug stay on stage to answer your question specifically related to land-based solutions as well as real estate development. Please raise your hand and we'll bring you a mic. And then please state your name and company before asking your question.

Anthony Pettinari:

Hey. Anthony Pettinari from Citi. Thanks for the presentation. I'm just curious on the credit market in the United States, you talk about maturing that market or maybe creating a more stable market. What actually needs to happen from an exchange standpoint and a certification standpoint for that to occur? What's the timeline for that to happen? What registries are you interacting with or help us understand how that process could play out maybe and the timeline roughly for that.

Mark McHugh:

Yeah, no, I mean, it's a great question and like Doug said, we've been, I'd say very deliberate and judicious in terms of waiting into that market. Look, there's still a lot of activity that's underway in terms of standardization of markets, quality criteria. We often get asked what price of carbon does it make sense to do a carbon project in your forestry business? And the reality is we tend to talk about this price of carbon and there is no one price of carbon in the voluntary carbon market. There are carbon credits that trade for one or $2 a ton, and there are carbon credits that trade well in excess of one or even $200 per ton for technology-based removals.

We really want to get to the point where a ton of carbon is a ton of carbon and it's priced accordingly. We're just not there yet in the voluntary carbon market in the US and there's been obviously a fair amount of criticism around certain projects that have gotten done.

And like Doug said, our entry into that business has somewhat been limited by the value of the assets that we own. We don't own assets in again, these second tier geographies where you say, "Well, there's not a robust timber market, so we will do a carbon project there." So we are very optimistic that we're moving in that direction. Yet if you believe those forecasts around the trajectory of the carbon credit market and the demand for carbon credits going forward... And there is a lot of activity underway, there's a number of integrity initiatives that are bringing better standardization to this market. And so we're very optimistic that long term there will be an opportunity here, but we haven't believed that there's a first mover advantage.

And so we've been much more measured in our entry into that business. Like Doug said, we have a number of pilot projects underway. We are actively evaluating a number of opportunities and we feel that we're ready to wade in when we feel as though the economics make sense and that the reputational risk around participating in that market has mitigated to some extent. In terms of when that will be, I expect that at some point over the next several years we will engage in some form of carbon project, but we haven't done it to date. But again, we're very busy and I think that we have the resources internally to act very quickly there.

Doug Long:

Yeah, what I would add to that, as Mark says, we have worked with different organizations like Verra, American Carbon Registry and other folks like that, looking at how this goes. And in the last three to four months we've seen some standardization happening and really getting that international standardization, I think, is important also. So it may be great that we have a market in the United States, but this is global.

And so I think the important thing here is we're starting to see standardization across the globe, and when we see that, that's why I think we'll start to see meaningful value. And it's hard to compete when you have credits being generated for low single digits in some part of the world and then comparing to technology, as Mark said, you may cost a thousand dollars and so we really do need to find that standardization. But where I think we're getting to the point is where it's those poor quality credits are starting to get recognized for what they are and I think they'll be purged from the system or they just won't be purchased.

And so I do think in the next year to two years, we're going to start to see that maturity that we're looking for. So while it's still out there, I don't think it's 10 years out. I do think something... And what drives for me, and as I mentioned before really it's important is by 2030, all these thousands of companies that have made these commitments to net-zero have that first milestone. And so they're really pushing hard now to see that maturity happen. And I think that's an important part when the companies themselves are saying we need to get something we feel good about. That's when I think we'll see this. So I think it's coming, but may still be a year or two out before we really see that opportunity growth.

Collin Mings:

Other questions for the team?

Jesse Barone:

Hey Jesse Barone with Seaport. I guess first, what line of sight do you have to the targets you laid out for land-based solutions for EBITDA? How much more needs to happen and how much is already under discussion? And then secondly, on solar, I think you talked about 25% to 40% conversion. Why is it so low and what are you guys doing to get that towards the high end of the 40% rather than 25%? Thanks.

Mark McHugh:

I'll maybe take the first part of that question then I'll turn it over to Doug for the second part. We laid out a seven year target and we wouldn't have done that if we didn't have some conviction that we're moving in that direction, but there's certainly still things that need to happen. We feel very good about how our solar option pipeline is building as well as how our CCS pipeline is building.

But again, those solar options need to get converted to leases. Those CCS leases need to get to the point of injection royalties. And like I said earlier, there is a fairly protracted permitting timetable in order to get to that point. And so what we're focused on now is building up that pipeline and we do believe that pipeline will ultimately realize that value as those options convert and as we get to injection royalties on those CCS leases. There is a near term value. Again, we're receiving rental payments, we're receiving option payments, but the real trajectory occurs after that conversion happens.

But again, you go back to how much capital is going into the space, the Inflation Reduction Act incentives, this is happening. I think it's more an issue of what pace does it happen. So we feel very good that the trajectory there will be very strong, but in terms of getting to that target, we do have to see this activity really convert to those projects get permitted and get those conversions happening.

Doug Long:

Yeah, I'll comment on the range. I think part of that range is like any new business, you see a lot of people rushing and try to get into the business basically. And so what we saw was pretty much a land rush and sometimes those weren't by capable counterparties. And I'm not just talking about this was an industry that 25 to 40, a Rayonier comment, that was an industry comment. And so you see that. And so I think a lot of things, what happened was people went in, they locked up land, but they never really had the ability. They didn't have that backing utility skill at the time. And what's changed we're seeing now is with that cost that I talked about going down by 80%, utility scale solar is now saying this is cheaper than fossil fuels. We're going after it. And so he asked, how do we get to the other end of that range?

I think by aligning with the utilities themselves, we actually could see improvements better at that range. And we're working now to understand those lands and how to market those lands, as I mentioned. So being proactive. So we really do believe that's an industry average and that we may be able to work to the right side of that range or even improve that by having that direct relationship with those utility customers and working with them, identifying what do they need, where do we have that, how can we be that for them?

Because right now they're working through... Well, not right now. They're moving towards that. We're working with them on that. If you fast-forward, go back three years, there was a lot of developers out there who were then trying to market to the utility. So there was this middle man in the middle who was trying to play the game, and we've seen that kind of... They still exist. There's lots of people out there. I'm not saying we wouldn't work with someone that are high quality, but we’ve really seen a push towards the utility players themselves and how do we work with them. And I think that will help that conversion rate.

Dave Nunes:

Jesse, if I could add to that, we transitioned from a mode of thinking, "Oh, this is a free option that we can get being an order taker," to recognizing that we have to be proactive on both of these. And so that's taken place by really seeking out who do we think has the highest probability of success both on the solar as well as the carbon capture. And we've been going after those relationships and I think that was a key pivot point internally as we progress these options.

Collin Mings:

Next.

Andrew O'Neill:

Thank you. A couple of questions for Chris. In the real estate portfolio, do we participate in some way as a landlord on a recurring go forward basis, maybe rent on the commercial spaces in some form like that?

And then maybe a second question. You described the process of building up credibility. Does that improvement in credibility give us the chance to participate in greater economics of the value creation over time in that real estate development master planning business? Could you describe maybe that journey?

Chris Corr:

Thanks for the questions. In the first one, we don't anticipate we'll be in a place where we will own operating properties, but we're participating, as I mentioned, in the ongoing home building business by the way we structure those transactions with what we call a true-up payment when the home is sold.

So we get a percentage of the final sales price. That's a negotiated number. It's a land payment because of the pods that we're transacting. And so that gives us a recurring stream that comes from the success of the project. So that's part one.

On part two in terms of the credibility, the way I would answer that one is what is happening is other markets have recognized the success of Wildlight and Heartwood. And so where we own land in other counties, in other cities, they've come to us and invited us to come in and work with them to plan. And essentially they're saying we want Wildlight in our community. And so I think what the credit in our paradigm kind of the way we work in this land development portfolio that we have, that's what the credibility is gaining us in addition to be able to continue to operate our projects really successfully. It's getting us entrees sooner with great politics behind it into some other opportunities as well.

Mark McHugh:

But we don't plan to get into the vertical development business anytime soon. Just to be clear.

Audience Participant:

In terms of the CCS opportunities, how scalable are the existing projects in the pipeline right now and then are there any longer term environmental or remediation type risks associated with them?

Doug Long:

Yeah, that's a great question. So as we mentioned, we are going to have 70,000 acres by the end of this year we believe. And we still think that pipeline's building, so we have over 400,000 acres in that southeast Texas, southwest Louisiana area that have geologic storage capacity basically. So we have a lot of opportunities still to grow and we see that opportunity in front of us. And also as I mentioned really that southern part of Alabama, if you look there in the maps that we had there, it showed there's a lot of emissions in that area as well as capacity there and in southeast Georgia. So we think we have quite a bit of room to grow in that area.

With respect to the concerns around environmental, this is technology that has been around for a while, so it's not like this is brand new. It's been other places in the world, and so this technology is there. In Louisiana, the state has accepted the liability folks injecting there already, and so they're drilling down a half mile to two miles down below a cap rock. And so what's really important and what we have are lands that don't have prior drill holes to them because each one of those is a straw where stuff would come out. And so really an advantage we have is in areas that have not been heavily drilled for oil and gas these are areas with that capacity to have that good cap rock storage.

So we feel good about that and we're working with high quality counterparties like ExxonMobil, and so this liability is with them in this process. They're accepting that as the owner of the carbon that's stored underground.

Collin Mings:

All right, any additional questions? All right, well, thank you. We'll now take a break and look to restart at approximately 10:55. Thank you, everybody.