Fortress Transportation and Infrastructure Investors LLC (FTAI) CEO Joe Adams on Q2 2022 Results - Earnings Call Transcript

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Q2: 2022-07-27 Earnings Summary

EPS of $0.11 misses by $0.04 | Revenue of $177.93M (83.60% Y/Y) beats by $5.00M

Fortress Transportation and Infrastructure Investors LLC (NASDAQ:FTAI) Q2 2022 Earnings Conference Call July 28, 2022 8:00 AM ET

Company Participants

Alan Andreini – Investor Relations

Joe Adams – Chief Executive Officer

Ken Nicholson – Chief Executive Officer-FTAI Infrastructure

Conference Call Participants

Guiliano Bologna – Compass Point

Josh Sullivan – The Benchmark Company

Eli Winski – Citi

Justin Long – Stephens

Frank Galanti – Stifel

Operator

Good day and welcome to the Second Quarter 2022 Fortress Transportation and Infrastructure Investors Earnings Call. Today's call is being recorded.

And I would now like to turn today's conference over to Alan Andreini. Please go ahead sir.

Alan Andreini

Thank you, Lisa. I would like to welcome all you to the Fortress Transportation and Infrastructure Second Quarter 2022 Earnings Call. Joining me here today are Joe Adams, the CEO of FTAI; Ken Nicholson, the CEO of FTAI Infrastructure; Scott Christopher, the CFO of FTAI Infrastructure; and Angela Nam, the soon to be CFO of FTAI Aviation.

We have posted an investor presentation and 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, including FAD. The reconciliations 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 and Ken, I would like to point out that certain statements made today will be forward-looking statements, including regarding future earnings. These statements by their 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 non-GAAP financial measures and 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

Thanks, Alan. Welcome to the FTAI second quarter earnings call. Today, we have presented and we'll be discussing the financials as of June 30 on a consolidated basis. But we're very excited that everything is in place for the spin-off of FTAI Infrastructure to be completed next Monday. So, we will also provide some pro forma information about the two separate companies, which will be trading next Tuesday under the symbols FTAI and FIP.

To start, I'm pleased to announce our 29th dividend is a public company and our 44th consecutive dividend since inception. The dividend of $033 per share will be paid on August 29, based on a shareholder record date of August 15.

Let's now turn to the consolidated numbers. The key metrics for us are adjusted EBITDA and FAD or funds available for distribution. Adjusted EBITDA was $165.3 million up 220% compared to $51.6 million in Q1, 2022, and up 143% compared to $68.0 million in Q2 2021. FAD was $109.4 million up 53% compared to $71.4 million in Q1, 2022, and up 60% compared to $68.3 million in Q2 2021.

During the second quarter, the $109.4 million FAD number was comprised of $161.6 million from our aviation leasing portfolio, $9.9 million from our infrastructure business, and negative $62.1 million from corporate and other.

Starting now with aviation. Aviation had a really good quarter, posting approximately $160 million of EBITDA, and $105 million of net income. We're benefiting from strong demand globally driven by the recovery and travel demand, which in turn is fueling growth in engine aftermarket services. Lease rates have returned to at or above pre-COVID levels and improving asset utilization is pushing maintenance reserve collection up while inflation is driving higher per hour and cycle rates.

Asset prices are also up. We took advantage by selling about a $100 million book value of assets for a gain of $55 million. And we have more asset sales coming in Q3 and Q4, both to recycle capital invested in some of our 2021 larger acquisitions, and continued capitalizing on the robust freighter market.

Aerospace products had an excellent quarter with $17 million in EBITDA and a significant increase in order backlog. We're in the process of completing two separate asset sales where FTAI will retain engine maintenance service contracts for the next eight years covering 22 engines. We believe this marks a unique way to scale the number of engines we manage while recycling capital for new investments.

In addition, we've been awarded a major engine exchange program covering between 10 and 20 engines for a large Southeast Asian airline. All told today, we now have five airlines, three leasing companies, and five maintenance repair organizations, or MROs signed up to use the module factory for a significant portion of their CFM56 fleet. And every user we've had so far has been a repeat customer.

Used serviceable material USM, sales experience more activity in Q2 as shop visits increased. Demand for used CFM56 material is high and growing and sufficient to easily support 20 engine to 30 engine tear downs per year, which continue to generate approximately a million in profit per engine for us.

Our PMA initiative made significant progress in Q2 on the next four parts development. Although the process is slower than expected, we're very happy with the parts being produced and are properly supplying all data requested. At this point, we expect all four new products to be submitted for final approval by this time next year.

We currently expect to complete an additional $200 million in asset sales in Q3 and have concurrently signed up $300 million in an attractive new acquisitions to replace these. The new deals are expected to be accretive by adding more EBITDA than the assets removed. Although from a timing perspective, Q3 likely will experience a slight decrease in leasing EBITDA until those new investments have fully closed.

Turning to the insurance claims. We're making good progress by supplying all information requested by the insurers regarding our $290 million in claims for assets lost in Russia, Ukraine. With three different buckets of claims, we think it is possible to realize a partial recovery by year end 2022 this year with the balance collected in 2023 and 2024. As a reminder, any recoveries will be a 100% income since all related assets were written off fully in Q1.

To pull it all together, we expect aviation without any insurance recoveries will produce per quarter $90 million to $100 million in EBITDA from leasing, $20 million to $30 million in asset sale gains, which we think will be recurring each quarter, and $20 million to $30 million in EBITDA from aerospace products, totaling $550 million to $600 million in per annum EBITDA from aviation. With this level of EBITDA, we expect FTAI Aviation to pay a dividend going forward of $1.20 per annum. While FIP, Fortress, FTAI Infrastructure expects to pay $0.12 per annum for the total of a $1.32 for the two stocks post-spin.

Let me now turn the call over to Ken to discuss Infrastructure.

Ken Nicholson

Thank you, Joe, and good morning, everyone. As Joe mentioned, our Infrastructure business will be a standalone company commencing next Tuesday. We're extremely excited about the prospects of our Infrastructure platform and believe are well-positioned to drive substantial growth at each of our four existing businesses. It's a dynamic time in the industrial and energy markets with inflation and focus on energy security as prominent as ever. And our assets are extremely well-positioned to capitalize on several opportunities.

Quickly to the second quarter results. In total, our Infrastructure business posted $26.7 million of EBITDA in the second quarter, up 34.8% sequentially from $19.8 million in the first quarter of 2022, importantly, each of our four core companies reported sequential growth in revenue and EBITDA.

As we head into the second half of the year, we're seeing good momentum across the portfolio and expect to continue to generate meaningful sequential growth as our businesses continue to ramp up operations, following recently completed developments, and as new contracts kick in. In the aggregate, we're targeting achieving annual adjusted EBITDA in excess of $200 million in the next 12 months to 24 months. With no additional investment required to meet that target.

I'll briefly review each of our Infrastructure companies starting with Transtar. Transtar had an excellent quarter posting growth across all aspects of the business, including volumes, pricing, revenue, and EBITDA. EBITDA increased from $14.8 million in Q1 to $18.8 million for Q2, a 29% quarter-over-quarter gain. More importantly, cash flow was $20 million for the quarter of sales from non-core assets continued to exceed capital expenditures.

Volumes at Transtar are increased from 54,000 to 57,000 carloads from Q1 to Q2 while pricing or average rate per car grew from $562 to $599 per carload. We're insulated from inflation and higher fuel costs that Transtar with the ability to pass through higher operating costs under our contract with U.S. Steel and ancillary services also grew at Transtar with car repair efforts, bringing a new revenue for the quarter.

While, the third quarter is typically seasonally a little softer than other quarters during the year. We expect results to remain steady as we look ahead driven by continued progress on a number of initiatives to gain new customers and grow revenue from other sources, including car repair and real estate income.

Next down to Jefferson. Q2 EBITDA Jefferson was $4.2 million up 11% compared to $3.8 million in Q1 of 2022. We saw increases in volumes of both refined products and crude oil as utilization of our terminal capacity continued to steadily ramp up during the quarter. We're very bullish about the second half of the year at Jefferson and expect revenue and EBITDA to grow materially in the third and fourth quarters. We're seeing a substantial pickup in volumes of refined products, shipped to Mexico and yellow wax crude trains are now running at nine trains to 10 trains per month.

More importantly at ExxonMobil's request, we now expect a complete construction of new storage tanks and commenced terminal operations under our 10-year contract during the fourth quarter of this year ahead of our original schedule of January, 2023. We expect this contract to generate approximately $20 million of incremental EBITDA annually, bringing substantial committed throughput volume to the terminal and provide a springboard for increased volumes – growth and volumes.

We're also an active discussions with Exxon about activating an additional connecting pipeline, which will bring incremental crude volume from Jefferson to the expanded Exxon Beaumont refinery. Additionally, we will look to compliment this expansion by providing bidirectional service on the Southern Star crude oil pipeline between Jefferson and Motiva, allowing for increased blending capabilities and higher crude oil throughput at the terminal. In short, the much anticipated ramp at Jefferson is now upon us.

Moving on Long Ridge. Long Ridge generated $7.5 million in EBITDA in Q2 versus $6.1 million in Q1. As we have communicated in the past, we target quarterly EBITDA for our 50% share of Long Ridge to be in the range of $12 million to $15 million per quarter. Our results for 2Q included the impact of gas purchases during the quarter that were required from external suppliers as we transitioned our internal gas production [Technical Difficulty] gas and generated EBITDA for the month within our targets and going forward, we expect to continue steady EBITDA from the power plant in line with our targets.

Development at Long Ridge continues to be robust. In July, we enter into agreements with Newlight Technologies for the construction of a new $300 million facility to rebuilt on Long Ridge property, which will produce carbon negative and biodegradable plastic products from natural gas, Long Ridge will sell power and natural gas to Newlight, as well as provide land under long term lease. In addition, we expect to be an investor in the project. If certain conditions are met, we expect the facility to be operational in 2024.

Finally, to close that with Repauno. At Repauno, our key focus is on commencing a development of our Phase 2 LPG transloading system. This system is expected to triple our throughput capacity and quadruple our operating margins when it comes online in a couple of years. We have demand from multiple international off-takers and our goals to enter into a long-term agreement with one or more parties during the third quarter. We have completed engineering for the new storage tank and associating piping, and systems, and have negotiated construction contracts. We plan to finance all construction costs with tax exempt debt.

In the meantime, in the second quarter, we expanded our existing capabilities by loading fully refrigerated LPG to large gas carrier marine vessels. With this important step, we move closer to our goal of loading VLGCs, or very large gas carriers across our dock facility. In addition, the newly expanded LPG truck racks continues to see how utilization providing both propane and butane to local heating and lending markets, meeting additional customer needs in the area.

Finally, we continue to see increased interest in the renewable energy space with 250 acres primed for development. We have announced a coordinated effort to develop a unique marine cable manufacturing facility with Rise Light, which will provide a critical American made infrastructure link to bring renewable electricity from offshore wind generation to local consumers. Also our Clean Planet joint venture continues to progress through the permitting process for the first plastics recycling plant at Repauno. We're expecting to complete construction of the Clean Planet facility in 2024.

With that, I'll turn it back to Joe.

Joe Adams

Thanks, Ken. Next week is a big week for FTAI shareholders with the consummation of the spin. FIP will eliminate K-1s for shareholders upon the spin and FTAI will begin a six week to eight week redone of selling, which when complete will eliminate K-1s for all shareholders as well. Index funds, ETFs, and a broader investor universe will be able to own both stocks. And importantly, both companies will focus, refine, and articulate their uniqueness and value add in the respective market served.

For aviation, FTAI is capitalizing on global travel recovery and growth and aftermarket engine services to be the leading low cost commercial engine power provider for narrow-body aircraft globally. The unique combination of engine leasing and maintenance management provides airlines cost savings and capital preservation through proprietary products and practices while focusing on the largest and most liquid engine market in the world.

Ken Nicholson

And I would just say for infrastructure, we very much look forward to updating investors on a standalone basis starting next quarter. We do expect to post meaningful growth in the near-term across each of our four key business units. It's a very attractive time to on long-term assets, well insulated from inflation and with high scarcity value in the country's largest industrial and energy markets. We view the growth of Transtar this quarter as a good indication of things to come and following the years of development where accelerating the pace of ramp up at Jefferson and Repauno terminals, while at Long Ridge with the power plant complete, we're now beginning to drive incremental cash flow and value.

And I'll turn it back to Alan.

Alan Andreini

Thank you, Ken. Lisa, you may now open the call to Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We'll take our first question from Guiliano Bologna from Compass Point.

Guiliano Bologna

Thank you. Joe, and starting off with on the aviation side. I'd be curious, a couple of different things and how they kind of interact together. You obviously mapped out a handful of asset sales from some of the called the four of the nine assets you got back from Russian carriers. Last quarter that you said to generate call a $30 million gain on sale. And then you had a handful of other 737 NGs that you got back that, we're potentially going to go on lease.

I'm curious when we look at the asset sale numbers obviously came in a bit higher than what I had expected. I'm curious what the composition of those asset sales looks like? Or if we sold, and if you sold more of the Russian assets and you mentioned some cargo assets as well during the call. And then talking – then looking on the other side, I'm curious what kind of assets you're looking at on the LOI side, because you obviously have a pretty strong LOI pipeline and you mentioned call $300 million of potential acquisitions? So I'm just curious, what types of assets are you selling? What types of assets are you acquiring? And how should we think about the EBITDA contribution coming out on the sales then back in on the acquisitions?

Joe Adams

Yes. So the composition is a little – as I mentioned is two different groupings. One is cargo and the other is recycling capital from mainly the Avianca deal, but also some others with long term leases that we did last year. The cargo assets, we also sold in addition to, selling some of the assets, the 757s and 767s we took back from Russia and Ukraine. We've also sold some 747s in this quarter. So that's why the gain is, higher than, than we had originally projected.

That market is mentioned I, we don't know when the cargo market will slow down, but we don't want to miss it. So, we decided that it was sort of a good time to, we'd rather be early than late. And that market, we had bought those assets at a very attractive time several years ago when no one was paying attention or thinking about cargo. So there were quite good returns for us. But we decided it was time to sort of lighten up on the cargo side.

And then in the third quarter, I think I alluded to the deals that we're selling with long term leases attached. So, there's still a lot of capital that's been raised by new leasing companies that like that wants to buy deals. And we structured those so that we can retain the engine maintenance service contract and do that for the Lessor which is great for us, because we could use Lessor's, other Lessor's capital and retain the best part of the deal.

So those are the deals we're targeting to close in mostly in Q3 and, we'll add a lot of, we add backlog to our aerospace products business that way, and we think we can continue to grow it. And we're very pleased that, the Lessor acceptance of that has been not by one Lessor, but by two Lessor. So, we see that as something that's very, very significant for us to continue to grow the service business and highlight our ability to create value out of portfolio deals, which is why I reference that. I think this gain on sale is something that we think is should be recurring for us each quarter. I think we can do that. We can buy packages of assets and then find, the parts that are most attractive other people and take advantage of that. And in this case, we're able to even keep the engine maintenance service as part of that.

On the buy side we're focused on all CFM56 engines, or mostly that's been the folks along, we acquired 25 engines in Q2 that were all off lease. So that's where you get the best prices when you have an asset that's some you have to put revenue, you have to attach revenue to it is that's a market that very few people compete with us on that. So that was a great on buy side.

And then additionally, we've got some deals with big airlines that we have existing relationships with that we've established a good relationship with. They're also CFM56 engines. And they would add to very similar to the transactions we did last year with Avianca [indiscernible]. So, we think it's a, it's a great combination. We pick up EBITDA by doing that, so it's both recognizing again and increasing EBITDA seems like a very good very good win.

Guiliano Bologna

That's great. I appreciate and switching over to Infrastructure. Well, I'd like to focus a little more on Jefferson. I'm curious, obviously there's, yeah, there's a lot of commentary on the call about Jefferson, and there's an outlook or map or a roadmap to getting roughly around $80 million EBITDA. I'm curious, what gives you like a lot more, like, what gives you a lot more confidence that they'll be able to get there and then think about the different components. Obviously there's the Exxon deal coming on. But they'll say the wax, yellow wax train car volumes, they're access to increased start to increase during 2Q. I'm curious, what the different components are and how to think about contribution from some of the different initiatives that are going on at Jefferson?

Joe Adams

Yes, look we're pretty bullish on the second half of the year at Jefferson. The look all the assets are in place. We are – we're finishing up the new assets for the ExxonMobil contract, and we're really happy that we're going to be able to start operations under that contract. Now in the fourth quarter that's obviously a big piece of the bridge to $80 million. But a bigger piece is just continued increases in utilization. All of our assets in place today are being utilized at less than 50%, and it's been a process for frankly, a few years of building out those assets and cultivating the relationships with the ExxonMobil's, Motiva's and others in the Beaumont refinery complex. That's been a lengthy process, but we're now finally there.

As I mentioned, we're opening up another crude pipe between Jefferson and Exxon. We're kind of making a small change to the Southern Star pipeline between Exxon and Motiva to allow it to be bidirectional. All of those things play into more demand and more requests for throughput from our two largest customers.

Yes, we're thrilled that yellow wax trains continue to accelerate, the second quarter was a good quarter. I think the third quarter will be an even better quarter, refine products in the Mexico are strong and getting stronger new terminals are being opened in Mexico. And so we're seeing indications and seeing business in this month of July that make us very comfortable with our outlook for $80 million of EBITDA, in the next 12 months to 24 months.

Guiliano Bologna

That's great. I appreciate it. Thanks for taking my questions. I'll jump back in the queue.

Operator

We'll take our next question from Josh Sullivan from the Benchmark Company.

Josh Sullivan

Hey, good morning

Joe Adams

Good morning.

Josh Sullivan

Just question on the overall leasing market, we've had both Airbus and Boeing come out here lowering delivery assumptions due to supply chain issues, mainly within the engine availability market or vertical. So first off is that lack of OEM engine supply supporting the module business in USM. And then secondly on the aircraft leasing market how are airlines responding to that lack of OEM aircraft supply? Is that a conversation you guys are having with airlines about capacity at this point?

Joe Adams

Yes, it's good for us. I like that fact that, it's harder to make new airplanes because it makes owning the ones we own better and more demand. So there's a lot of demand for the existing NG, 737 NGs and A320 CO [ph] asset. So, we've got as travel demand has been very, very robust and relatively price and elastic airlines, need lift and need capacity. So it's, to the extent this new deliveries get stretched out, it just extends the longevity of the fleet that we own, which is good.

And then the other thing I mentioned, which is also good is for us is inflation because as inflation, in increases, the price of a shop visit our advantage gets bigger and also our revenue collected from maintenance reserves goes up. So, we like both of those trends and, it seems like, as people have indicated, it's not going be, I think somebody said, they're not going to be talking about stop talking about this probably until 2024 is the expectation. So, we've got pretty good period where it's going to be positive, I think for us.

Josh Sullivan

Got it. And then, and then one for Ken, just, just on Phase 2 Repauno, do you have customers in place or what are you seeing there to drive the next phase?

Ken Nicholson

Hey Josh, we are very close. I can't tell you, we have a contract signed, with a, with an off taker. I will tell you the team at Repauno, spent the better part of two weeks in Europe recently. And I think we're in a very good position to sign something up in the third quarter, plenty of demand from very large investment grade counterparties. We want make sure we sign the best deal. And but we're close everything's ready to go, but we're not at the point yet where we have a contract executed, but we're close.

Josh Sullivan

Got it. Thank you for the time.

Ken Nicholson

Thanks.

Operator

We'll take our next question from Christian Wetherbee with Citi.

Eli Winski

Hey, thanks. Good morning guys. This is Eli Winski on for Chris. So maybe thinking about some of the sensitivity around the infrastructure side and going over to Jefferson. Ken, you were talking about, you'll obviously get the Exxon contract and then you're going to focus on better asset utilization, but what are the, what are some of the puts and takes to getting better asset utilization specifically on maybe the rail congestion side? How does that impact growing some of that business?

Ken Nicholson

Really no issues with congestion. I mean, we can handle double the train activity we're handling today. I mean that's one of the things we've been working on as we've developed the terminal, ensuring that whether it's inbound crew train through outbound refined, product trains, we've got plenty of capacity to handle the additional business. I, when we go through the calculation of, exactly what our throughput capacity is, there's about 400,000 barrels per day, that's the capacity. We take all that stuff into consideration. I mean, I don't, I, we're not too concerned about congestion issues. We've got plenty of track at the terminal. And so we haven't certainly haven't experienced any congestion to date and I don't, I don't think congestion is going to be an issue for us.

Eli Winski

Okay. That makes sense. And then on the Exxon side, you said, you have a lot of the assets in place, but, but what is left and then separately on the $20 million of incremental EBITDA, what does that ramp up there look like? So you said that's $20 million annually, but when does that really start to pick up, when should we expect a lot of that to be coming in what's left to there?

Ken Nicholson

That really, there should be a very short ramp up to that contract. I mean the operations commence when everything is built, what is being built specifically is just under 2 million barrels of total storage. So we have storage tanks that are under construction. We've built 4 million barrels to date. This is an additional 2 million we're bringing online. And then just piping and manifolds. The way that system will work is we will receive refined products by pipe accumulate and store the refined products. And then we will load large ships for export of those products. So it's really just down to storage tanks, piping, and manifolds all stuff we've built before.

So far on track for completion during the fourth quarter, feel pretty good with our ability to get it done. I would say mid part of the fourth quarter, although the team down there is, very focused on, completing as quickly as possible. There's not, I wouldn't say we're at a stage of construction now where most of the risks that you would typically see geotechnical and what have you are behind us. And now we're welding and painting. We're not digging any holes or driving piles or anything like that that can, typically be a cause for delay.

Eli Winski

Yes. Sounds like the tougher stages are over onto Mexico for refined products. How involved is the government right now still in restricting moves. So, you said that you're going to see a substantial pickup there, but what does the government play in level of?

Ken Nicholson

Yes, I'll tell you we're. I mean, it's always a ongoing dialogue. Right now, we're not seeing any reduction, in movements. I mean, Exxon as active as ever in loading trains for movements down to Mexico, we watch it closely. And there are, on occasion percolation of, a story here or story there but at the end of the day, the country needs gasoline and diesel. And Exxon's got a base of about a thousand, ExxonMobil gas stations that they need to serve. And so we have not seen any issues or any slow downs, coming across from some of what you might read in the papers about, government interaction.

Eli Winski

All right. That makes sense. Thank you all.

Operator

We'll take our next question from Justin Long with Stephens.

Justin Long

Thanks, and good morning. I know in the slides you called out a $200 million plus EBITDA run rate for the infrastructure businesses over the next one to two years, you referenced $80 million from Jefferson earlier. I think you gave the number of a $100 million for Transtar in the slide. So, when I add up the pieces, it sounds like we could be a decent fit above $200 million. So, I was wondering if you could just kind of refresh us on your latest thoughts on the EBITDA contribution from each of the different assets as you look out the next couple of years and maybe what level of corporate costs are getting factored into that forecast as well?

Joe Adams

Yes absolutely. You were spot on the companies that you mentioned, Transtar is $100 million of the total of $200 million. Jefferson $80 million, Long Ridge, we're targeting $50 million, could easily be more to the extent we produce excess gas, particularly at current market pricing, but behold $50 million plus for Long Ridge, and Repauno right now, we're including at $10 million, which is really only including, Phase 1 and a little bit of incremental activity that does not include Phase 2. So that's not in the $200 million estimate. You add all that up and yes, you get, you get in excess of $200 million closer to $240 million, and then we deduct $30 million to $40 million of corporate expense, and that gets you to, just north of $200 million.

Justin Long

Perfect. And secondly, I wanted to ask about the pro forma debt for the two businesses post-spin next week. I know you gave the numbers in the slides, but how are you thinking about targeted leverage for each of these businesses a year from now? And based on that target, what's the capacity that you feel like you have for each entity to invest in growth?

Joe Adams

So for aviation, we're targeting maintaining the BB ratio and somewhere probably in the neighborhood of four times to five times debt to EBITDA. So there's capacity, I think, to go up as we grow EBITDA. But I think we're comfortable where it is, at this point.

Ken Nicholson

And I would say for infrastructure, it's generally the same in terms of the ratios, obviously the infrastructure business, slightly smaller, business right now. But in terms of a ratio it's in that sort of four to five times EBITDA target. The beauty of, the infrastructure businesses in terms of investment capital for growth. A lot of what we do is eligible for tax exempt financing, and that's something we've used historically at Jefferson. And we can use Repauno and potentially even at Long Ridge.

And so, debt capacity obviously would be, will be smart and disciplined about, incurring debt. But we've been successful in the past growing through investment by accessing the tax exempt markets. And Jefferson, our average rate of borrowing is, in the high twos as an example, and we'll, I'm not sure in this current market environment, Repauno for Phase 2 will be at a similar rate, but it'll still be a significantly lower rate than, where the more traditional taxable markets would be. So, I feel like we can maintain a, four times to five times leverage ratio, but at the same time, continue to incur debt for specific projects at attractive levels.

Justin Long

Got it. Thanks for the time.

Joe Adams

Thanks.

Operator

We'll take our next question from Frank Galanti with Stifel.

Frank Galanti

Yes. Hi thanks for taking my questions and congratulations getting the financing done to be able to spend the Infrastructure business. I wanted to follow up on the engine maintenance program. So, you had mentioned when you sold a couple of the engines you were able to keep the maintenance portion. Can you sort of talk about what that physically entails and then sort of the economic, so is that simply using the module factory or is that full overhaul services up in Montreal? And then how do, how should we think about that from an economics unit economics perspective?

Joe Adams

Sure. It's a good question. So how it works is that we've, we sell the aircraft to the new owner and agree to provide replacement engines for the life of those leases, when needed. So when an engine is due for a shop visit, we would take the engine that needs the shop visit and exchange in return, a engine that is meets minimum requirements of cycles and hours available in a swap.

And so that engine then becomes our engine. We can either put it in the module factory or do an overhaul or sell it. And in the economics, in the meantime, what we're doing is we're collecting the full maintenance reserves from the airline for that engine along the way. So the way we price it out given our advantage cost with on the maintenance side is that we could, we could generate an additional million dollars per aircraft, per year through that transaction.

So it's a very attractive for us and it's also attractive for the new owner. Obviously they're doing it, voluntarily because managing those engine events is not something everybody's capable or experienced or has had good outcomes on. So, we think it's a – it's example of our ability to provide a competitive service at something that we can then generated significant profit because of our proprietary products and advantage. So, very exciting. I think because it opens up a very, very large market, 60% of the world's fleet is owned by leasing companies. So as we looked out, that was – that's an important area for us to spend time and to try to grow and to profit from. And so this is a way to do that on a pretty significant scale.

Frank Galanti

Great. That's super helpful. And then sort of continue to get on the aviation path, I wanted to ask about the module factory. Can you sort of talk about customer interest since the inception of that? And I guess my assumption is that that it's picking up. But so in that way, are there needs to put more engines into that business? If I remember correctly, there's about 10 that was originally put in. And then is there any interest or need to move past the three modules that you guys have developed and expand those services?

Joe Adams

Well, in terms of the scale, I mean, yes, we would probably as volume grows and obviously what we're doing is, we're turning modules. So, we would increase the number of modules in the module factory as the business grows. We are seeing very broad based growth in users, as I mentioned, we've got, it takes a while to market this, but we've spent time with many, many airlines and each week we are educating airlines are spending time with them and finding that they have needs and demands. And we're building backlog for 2023 right now.

So, we're seeing a very broad based acceptance on the airline level of the maintenance shops have been very, I would say much easier to sell, because they they're in the business of doing this regularly, and there's never been for many of these shops. They never had a place to go to buy a fan or to buy an LPT. So this is something now that they're recognizing they can use to just generate, additional income for their own maintenance shop.

And then and then as I mentioned, the leasing companies, we're seeing the leasing companies use this now for return compensation. So at the end of the lease an engine you often have return comp issues with the airline. The airline has to provide a certain, minimum member of hours and cycles back. And if they don't, they have to pay cash. And so we can oftentimes, if it's an LPT that doesn't meet the requirements, we could sell an LPT to the airline or the leasing company so that the return comp conditions are met and they save money and they don't have to do a shop visit.

So it's becoming a useful tool so that for people to save money on the end of lease issues. So, really developing a very broad market for this, and it is an education process. It takes time, but given that we can, sell to almost everybody in the ecosystem, it's a huge growth opportunity for us. And the backlog, as I mentioned, is continuing to build. And as we, with the sale of these assets and retaining the engine maintenance agreements that gives us committed volume, which we like as with the West Jet deal, we have an eight-year deal, a seven-year deal. We now have two eight-year deals. So, we'll add to that.

So, we see it with a nice ramp in terms of, if we did double the volume, if we had 10 engines, we might have 15 engines and/or as much as 20, but if each engine is sort of $2 million to $3 million, it's not a huge investment to get that kind of a turnover ramp, which we would expect to turn a module within three months to six months and sort of and do it multiple times a year. So, I don't see that as a big capital user, and it should scale quite easily.

In terms of going beyond these three modules. I don't – we don't see anything quite as attractive as this right now. So our focus is really on that. And we could develop something later in the future, but right now, it's everybody's all eyes on this opportunity.

Frank Galanti

Great. Ad I'd squeeze in one more question if I could on the PMA business. So, can you sort of talk about the approval process, and why it's taken longer than anticipated, and I guess, are there customers that are interested in just one part that's approved? Or are they sort of waiting until there's a number of parts before engaging? Yes.

Joe Adams

Well, I think it's, I mean, people know that additional parts are in development, so it having a critical mass is very helpful. So, I think that's part of what we're attempting to achieve from the very beginning. And so once we have that critical mass, then I think people will know that that's coming. So they tend to key off that. The process is just; I think there's been an element of cautiousness. There's a lot of data requests and a slower turnaround time than normal. So it's all those factors, but we've got a great partner, they know how to do this, they've done it hundreds of times. And the parts are very, very – they're very happy with what we've got in the pipeline.

Frank Galanti

Great. Thank you very much.

Joe Adams

Thanks.

Operator

And that concludes today's question-and-answer session. I would like to turn the call back over to Alan Andreini for any additional or closing remarks.

Alan Andreini

Thank you. Thank you all for participating today's conference call. We look forward to updating you for both companies after Q3.

Operator

And that concludes today's presentation. Thank you for your participation. You may now disconnect.

Comments

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