Brookfield Infrastructure Partners LP
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Corporate Speakers:

- Bahir Manios; CFO of Brookfield Infrastructure Partners
- Sam Pollock; CEO of Brookfield Infrastructure Partners
- Ben Vaughan; COO of Brookfield Infrastructure Partners

Participants:

- Cherilyn Radbourne; TD Securities Equity Research; Analyst
- Robert Kwan; RBC Capital Markets; Research Division, Analyst
- Rupert Merer; National Bank Financial; Research Division, MD and Research Analyst
- Frederic Bastien; Raymond James; Research Division, MD & Equity Research Analyst
- Devin Dodge; BMO Capital Markets Equity Research; Analyst
- Andrew Kuske; Credit Suisse; Research Division, Head of Canadian Equity Research

PRESENTATION

Operator
Good day ladies and gentlemen. Welcome to the Brookfield Infrastructure Partners Second Quarter 2019 Conference Call. As a reminder, this conference call may be recorded. I would now like to introduce your host for today's conference, Mr. Bahir Manios, Chief Financial Officer. Sir, you may begin.

Bahir Manios
Thank you, Operator. Good morning, everyone. Thank you all for joining Brookfield Infrastructure Partners' Second Quarter Earnings Conference Call for 2019.

Joining me on the call today is Sam Pollock, our Chief Executive Officer; and Ben Vaughan, our Chief Operating Officer. Following our remarks, we look forward to taking your questions and comments.

At this time, I'd like to remind you that in responding to questions and in talking about our growth initiatives and our financial and operating performance, we may make forward-looking statements.

These statements are subject to known and unknown risks, and future risk results may differ materially. For further information on known risk factors, I would encourage you to review our annual report on Form 20-F, which is available on our website.

Moving on to our operating report this morning, I'm pleased to discuss our results of operations for the second quarter and provide you a quick update on our liquidity position.

We reported another strong quarter with Funds from Operations, or FFO, of $337 million or $0.85 per unit for the three months ended June 30, 2019. This represents increases of 15% and 13%, respectively, over the same quarter of the prior year.

These second quarter results are the first to reflect the full benefit of the most recent phase of our asset rotation strategy. To summarize this strategy, last year we generated combined proceeds of $1.5 billion from selling an interest in a mature de-risked electricity transmission business in Chile and completing a financing at our Brazilian regulated gas transmission business.

These monetizations occurred at values that represented a 7% average FFO yield and the proceeds were subsequently redeployed into seven higher-growth businesses across our utilities, energy and data infrastructure segments that generate, on average, a going-in FFO yield of 12%.

The value created through this phase of capital recycling is meaningful. In this quarter alone, it contributed incremental FFO per unit of almost $0.05 on a per unit basis. And on an annualized basis, it should benefit our FFO by approximately $75 million.

Our results for the quarter also benefited from both organic growth and the contributions from capital recently deployed in new investments. Our FFO also grew organically by 10% relative to the prior year, marking the second consecutive period of growth that exceeded our annual long-term target of 6-9%.

Contributing to this outsized growth was our volume increases that averaged 2% across our business, inflation indexation of approximately 3% and earnings generated from the commissioning of almost $650 million of capital expansion projects that were completed during the last 12 months.

FFO from our utilities segment totaled $143 million for the quarter, compared to $139 million in the prior year. The business delivered organic growth of 10%, primarily the result of $275 million from projects that were commissioned into the rate base this last year and the benefit of inflation indexation across our portfolio.

These positive factors were partially offset by interest charges associated with a debt financing completed in the prior year at our Brazilian regulated gas transmission business, as well as the impact of foreign exchange. Within our utilities segment, we recently agreed to construct another 900 kilometers of transmission lines to expand our existing Brazilian electricity transmission business.

We expect this line will require $30 million of capital from Brookfield Infrastructure and will be completed in 2021. Inclusive of this project, we're currently in the process of building almost 5,200 kilometers of lines in the country, which will provide very attractive risk-adjusted returns under 30-year contracts.

Our transport segment contributed FFO of $135 million compared to $133 million during the same period of 2018. Results in the quarter benefited from volume growth across our ports and toll road businesses, as well as rising tariffs, which were 4% higher than those earned in 2018.

These positive contributions were partially offset by the impact of the sale of a 33% interest in our Chilean toll road operation that closed in February.

Within our transport segment, I wanted to do a bit of a spotlight this quarter on our global ports business. This operating group generated FFO of $26 million representing an 18% increase over the prior year.

The year-over-year increase was driven by strong volumes globally, which increased by 10%, in addition to a 5% improvement in rates. In particular, our U.K. port operation reported another excellent quarter, with container volumes exceeding the prior year by 5%.

This was predominantly the result of new customer mandates and increased economic development in the area surrounding our port lands. In Australia, revenue at our container terminal was 8% ahead of the prior year, primarily due to new services that commenced in the second half of 2018 and higher average tariffs.

And finally, our North American ports business recently won a new contract that will add approximately 2,000 moves per week at our Los Angeles terminal. We expect this service to increase EBITDA generated by this business by approximately 10%.

FFO from our energy segment was $96 million, which is a 78% increase relative to the prior year. The increase was mainly attributable to the $1.2 billion of capital deployed in the last nine months to acquire a North American residential infrastructure business, a Canadian midstream operation and a natural gas pipeline in India.

Additionally, results benefited from higher natural gas transportation volumes and the commissioning of capital expansion projects at our U.S. gas transmission business. I'll highlight two businesses within this segment this quarter. First, at our North American district energy business, construction is underway on a large thermal storage site that will serve as a hub to expand our deep lake water cooling system in the western corridors of Downtown Toronto.

This particular area of the city is undergoing significant redevelopment and we believe there is potential to add over 50 buildings to our network over the long term. This project will require approximately $20 million of capital from Brookfield Infrastructure and is expected to generate substantial returns once it's commissioned in 2021.

Second, at our North American residential infrastructure operation, we are successfully advancing our growth plans in the U.S. During the quarter, we completed a $30 million acquisition of a business based in Phoenix, Arizona that services 12,000 heating, ventilation and air conditioning, or HVAC, customers.

This acquisition expands our presence to a new, fast-growing region of the country and our business will benefit as these service contracts are converted into long-term rental contracts over time.
With the highly fragmented residential infrastructure segment in the U.S., we believe there will be additional opportunities to complete tuck-ins and build scale on an accretive basis. Also, our

business recently launched its pilot program with a utility in Texas, to offer our residential infrastructure projects to a large subset of its current client base.

Early indications and feedback show that the program has been well-received. Lastly, customer adoption of our lease offering for heating, ventilation and air conditioning equipment has proven very strong in the U.S. and has significantly exceeded our expectations.

Our data infrastructure segment generated FFO of $30 million in the second quarter, a 58% increase over the prior year. The increase was primarily the result of contributions from new investments that we recently made in a global data center portfolio as well as the benefits of inflationary price increases and new towers added to the network at our French telecommunication business.

The second quarter of this year was the first period to see full contributions from the capital we have deployed to establish a large-scale global data center platform. Today, our business is well-diversified and includes 49 facilities on four continents. Integration efforts are now largely complete and the various businesses we acquired are performing in line with expectations.

In our South American data center business, we have focused on the build-out of several new sites, which are all underpinned by attractive long-term contracts to investment-grade global hyperscale customers.

So far this year, we have commissioned four new data centers and added 21 megawatts of capacity. We expect to construct two new centers this year, which will add a further 18 megawatts of capacity.

The total expected capital spend for these projects is approximately $290 million, with BIP's share being $35 million. Upon completion, these new sites will more than double our current EBITDA in this business. In addition, we're also on track to complete our first data center network in Chile by 2020 and we are preparing for future expansion into Colombia and Mexico.

And finally, before I conclude my remarks today, I wanted to touch briefly on our liquidity position. Our balance sheet continues to be healthy with total liquidity of $3 billion, with almost $2 billion of that residing at the corporate level. Recently in July, we added to our liquidity position by way of an equity issuance of approximately 20 million units, which provided capital of approximately $825 million.

Additionally, we're making good progress on a number of capital recycling initiatives, including the sale of a further 33% stake of our Chilean toll road business. There are also four ongoing processes that are progressing well.

Through these initiatives, we're targeting to raise approximately $700 million of after-tax proceeds in the next six months, with a further $1 billion to $1.5 billion generated by the end of 2020. And so, with that, I thank you for your time this morning, and I'll now turn the call over to Sam.

Sam Pollock
Thank you, Bahir, and good morning, everyone. For my remarks today, I'll discuss some of our recent strategic investment initiatives and then I'll conclude the call with an outlook for the business.

Let me begin by saying that we've been very pleasantly surprised at our ability this year to convert a number of the opportunities in our pipeline into secured investments.

This week, we closed on a $200 million investment in a New Zealand data distribution business, and we expect to invest a further $1.2 billion, net to BIP, in other initiatives by the end of the year. These investments will meaningfully expand our presence in the North America and Asia Pacific markets.

Now starting with the New Zealand transaction, we, along with a strategic partner, acquired an integrated telecommunications provider in New Zealand for $2.3 billion. This is a market-leading business that provides utility-like broadband and wireless services to 2.5 million customers.

With this acquisition, we own and operate a countrywide wireless and fiber infrastructure network including 1,600 cell sites and 10,000 kilometers of fiber optic cable providing wireless coverage to over 98% of the population. Brookfield Infrastructure and its institutional partners contributed $700 million of equity for our 50% stake in this business with BIP's share being approximately $200 million.

Next, we recently announced the $8.4 billion take-private acquisition of Genesee & Wyoming or what I'll refer to as G&W. This is a high-quality rail business based primarily in the United States, but it also has operations in Canada, the U.K. and Australia.

We will be acquiring the business alongside institutional partners, with BIP's share of this equity being approximately $500 million. While the original transaction included G&W's 51% interest in the Australian business, we recently agreed to sell this stake to a consortium led by the existing 49% owner.

G&W represents a great addition to our existing rail platform. This is a rare opportunity to acquire a rail infrastructure network of scale, particularly in North America, for good risk-adjusted returns. G&W owns 120 short line railroads and 26,000 kilometers of track.

It is a key provider of critical last mile transport services to customers and Class 1 rail operators. Its cash flows are resilient as the business is well-diversified across a number of goods that moves across its networks and the over 3,000-plus customers it serves.

Backed by our deep expertise as an owner and operator of rail and other transport assets, we feel we're well-positioned to drive value through our operational approach. Our areas of focus will be to maximize commercial opportunities and expand through strategic tuck-ins and also improve margins over time.

We anticipate the close of the acquisition and the sale of the Australian operation to occur concurrently in the fourth quarter of 2019 and this will take place once customary regulatory approvals have been received. Upon completion of the acquisition, combined with our existing businesses, we will own a large-scale, world-class rail operation on four continents.

The next deal I want to touch on is expanding our geographic footprint by investing in a natural gas pipeline business, which carries natural gas from Texas to Mexico. A number of you will know that we opened an office in Mexico in 2015 with the intention of establishing a local presence in the country, consistent with the approach we've done in many other places.

Up until now, we've not seen opportunities to acquire assets at appropriate risk-adjusted returns. We went to Mexico as we view it as a very business-friendly country with good market fundamentals and we see the value of investing in the country over the long term.

Now recently, institutional interest has moderated somewhat, and this created an opportunity for us to enter the market and acquire a low-risk, high-quality asset within our target return range. The pipelines that we acquired were built in 2016 and represent critical infrastructure supplying Mexico's growing central and western gas demand regions with low-cost natural gas in Texas.

The business is very attractive as the pipelines generate stable and predictable cash flows without volume or commodity price risk. Revenues are fully contracted under a long-term take-or-pay arrangement through 2041 with an investment-grade off-taker. In addition, foreign exchange risk is minimized as revenues are dollarized and they also have an inflation-linked escalator.

These assets will continue to be operated under a fixed-price arrangement by existing co-owners in the business, who have a well-established track record as energy infrastructure owners and operators in Mexico and abroad.

We will be investing alongside our institutional partners and BIP will be deploying approximately $150 million of equity. We anticipate completing this acquisition in the fourth quarter of this year and obviously subject to customary closing conditions.

And then lastly, you also may be aware that we've been monitoring opportunities in the telecom market in India for the past several years. The market has stabilized following a consolidation of the mobile network operators leaving three players, and this includes Reliance Jio.

As the competitive landscape settles, MNOs are focused on creating liquidity to invest in their networks and view the divestment of their tower portfolios as an easy way to raise funds rather than through the capital markets.

Leveraging our existing relationship with Reliance Industries, who, as you may recall, are the counterparty to our Indian pipeline investment, we recently secured an exclusive agreement to acquire a portfolio of 130,000 telecom towers in India from Reliance Jio. These are recently constructed towers with low maintenance requirements and over 30 years of useful remaining life.

The towers are unlike most India telecom towers as they are largely connected by fiber backhaul, which gives us a unique platform to capitalize on the rollout of 5G. This is a high-quality business that has similarities to our existing tower business in France.

It generates stable and predictable cash flows that will benefit from expected increases in data usage. In India, the growth in data consumption has been robust, to say the least, with per capita usage having increased 10-fold in the last two years alone, and this is a trend we expect to continue.

We believe that this investment will provide good downside protection with meaningful upside through introducing co-location to the other MNOs on the towers, which, to date, have only carried Jio. There will also be further growth as we execute a tower build-out program with Reliance Jio, who have committed to partially fund the expansion.

Overall, we see this as a great opportunity to penetrate a high-growth market at our target returns. Brookfield Infrastructure is expected to invest approximately $400 million upon completion of the transaction.

Now looking ahead, the outlook for our business for the remainder of 2019 is strong. In fact, we've probably not seen a bigger disconnect between the organic activity level going on around our businesses and the uncertainty and wariness that you read about in the media. We are seeing tremendous activity levels around our GDP-sensitive businesses, particularly our rail and ports.

As a result, we expect FFO to benefit from continued organic growth as well as the contributions from acquisitions that have or are expected to close in the third quarter. And this includes the second phase of our Western Canadian midstream business as well as the New Zealand data distribution business that we just acquired.

We expect the exit run rate in 2019 for our FFO per unit to be over 20% higher than it was at the time we sold our Chilean electricity business, which was over a year ago. The pace of new investment activity this year has surpassed our expectations, as I mentioned at the outset, and we anticipate this momentum to continue in the foreseeable future.

We are operating in a global economy that continues to experience solid growth with a growing need for additional capital to fund large-scale infrastructure investments in both developed and emerging markets around the world.

We are currently monitoring several very interesting situations in the energy and data infrastructure segments in North America and Europe where we expect to bring to bear our competitive advantages of size, operating capabilities and access to capital.

Now with that, this concludes our remarks for today's call. But I'll pass it back to the operator and we'd be pleased to take some questions.

QUESTIONS AND ANSWERS

Operator
Our first question comes from Cherilyn Radbourne with TD Securities.

Cherilyn Radbourne
My first question is just on India generally. Obviously, you've been quite active in that geography. I wonder if you could just give us a sense of how big that becomes pro forma as a percentage of the portfolio. And just talk about how you plan to manage the foreign exchange exposure.

Sam Pollock
Maybe I'll tackle the first part of that, and I'll leave it to Bahir to talk about managing FX. Yes, I think we've mentioned on previous calls that we expect to grow our Asia Pacific business, just given the relevance of that region to global GDP and the growth rates in that part of the world.

Today, our biggest focus, I would say, is in India, although we have investment professionals in Japan as well as South Korea, China, and obviously we include Australia and New Zealand in that group as well. I think in the near term, our focus will be on India and Australia/New Zealand.

Those are places where we have a long history of activity group wide. And in India, I think our growth in that market will be modest after this particular transaction. I think there may be select opportunities to do a few other things.

But I believe where we see the best opportunities are in the energy and telecom sectors where we can transact on a B2B basis, and we'll leverage the big platforms that we have. So, we're excited by the two recent investments that we've made. I think that will be our focus in growing those platforms, and I don't necessarily see another transaction.

Although, I guess the only other sector I'd say that we do monitor, and we think is a very attractive sector is the airport sector in India. And so, if something came along there, I think that's something we'd look at as well.

Bahir Manios
Just to add a couple of remarks. So pro forma, this deal, just to provide you some context here, we'll have about $600 million of equity invested in India through this tower business, the pipeline we recently acquired, in addition to our toll road business.

And from an FFO perspective, it will contribute somewhere in the range of about, call it, 4-5%. So, it's modest, as Sam mentioned, but that's just to give you some context. And with respect to foreign exchange, we are studying that as we speak.

And I would say my conclusions as of today would be not dissimilar to Brazil, is that it might make sense to at least hedge our FFO for the foreseeable future, being 12 to 24 months there. But

we'll have some more clarity on that as we progress the closing of this transaction in the coming months.

Cherilyn Radbourne
Great. All of those comments were very helpful. And then second question. Last quarter, you outlined a potential interest in acquiring asset-heavy telecom operators and outlined some pretty specific criteria that would need to be met.

Can you just comment on the extent to which the New Zealand acquisition that you made was kind of a unique one-off opportunity that met those criteria? In other words, was that unique or do you think that there will be other opportunities to do similar deals?

Sam Pollock
I'd say today it's the only opportunity that has met that criteria. But I wouldn't want to say that it would be the only ever. I think there are other markets where there hasn't had an unbundling of the network assets from the operating business and the competitive dynamics are in a structure that we'd be very comfortable with.

So New Zealand definitely did tick all the boxes that we were looking for. But I think there could be other situations where something could fit our criteria. But today, we haven't found one and we'll keep you posted if something arises.

Operator
Our next question comes from Robert Kwan with RBC Capital Markets.

Robert Kwan
So, you've had a pretty big ramp-up in acquisition opportunities and it looks like you're messaging that you do have a lot in front of you on that front.

I'm just wondering, as you kind of see a lot of those opportunities, does it cause you to look at kind of high-grading return hurdles? Or at least from the BIP perspective, do you manage down BIP's investment size or accelerate capital recycling?

Sam Pollock
I would say that, at the moment, we are definitely high-grading our investments to generate or invest in the highest return opportunities. I'd like to think that we are always disciplined so I wouldn't want you to ever accuse of investing below our return target. I'm not sure if that's what you're implying.

But whenever we do have a lot of activity levels underway, and we know that we have a scarce amount of capital that we can deploy, we definitely become choosier and push up our return target.

Robert Kwan
Yes, Sam. That's kind of what I was looking at. You've got depth in the private capital side of kind of the Brookfield umbrella and I'm just wondering how you think about it from BIP's perspective.

Or you've focused so much on financing without trying to change the unit count. Ultimately, what do you think the depth of the public markets are, and how do you manage that interplay?

Sam Pollock
Yes, as we've mentioned on other calls, we have to live within our means. We only have so much capital. And obviously, we have a lot more institutional capital that we can deploy.

And I think the benefit that we have in BIP is, to the extent that we have extra capital that we can deploy and we have opportunities to participate in co-investments, then we'll use that extra capital and invest in co-investments in those deals, like NTS and others, where we see exceptional returns. And if we don't have the capital, then we'll invest the amount that goes into the fund.

Robert Kwan
Okay. That makes sense. And then maybe just to finish on energy and NGPL specifically, you've had a number of growth projects that have really helped grow that business.

I'm just wondering looking forward many of the peers with north-to-south trunk lines have announced expansion and extensions fairly recently. What are you seeing right now in terms additional growth off of NGPL? And what type of magnitude of capital do you think we could see there?

Ben Vaughan
I'd say at NGPL we haven't seen any change in the growth trajectory. We're still seeing clients eager to move gas on our network and access the LNG facilities down in the south.

So, we have a project underway today that will be finished in the next couple of years, and we have another few projects that we are working with clients to try to get off the ground. So, at this point, I would say we haven't seen any come-off of the growth trajectory of NGPL.

Operator
Our next question comes from Rupert Merer with National Bank Financial.

Rupert Merer
Bahir, you mentioned the last phase of asset rotation is delivering a going-in FFO yield of 12%. So, looking at the portfolio of investment opportunities you have in front of you now of $1.3 billion, you're talking about opportunities maybe for high-grading returns.

How does this group of opportunities compare to the last phase of asset rotation? If we have this conversation this time next year, what do you think you'll be able to say about the going-in FFO yield? And what do these assets do for the outlook on growth and cash flows for 2020?

Bahir Manios
So as we look forward to the next phase of the capital or the capital recycling plan, which let's call it another $1.5 billion that we expect to deliver on by the end of next year, we've already sort of done about $700 million of that or so with the recent acquisitions that we've done that all have going-in FFO yields that are not only comparable to what we talked about for the first phase, but also for going forward. So, I would say it's not only consistent, but could be higher.

But it's not outside the realm of possibility that we acquire other businesses that might have also a ramp-up. So, we'll look at it on an average basis. We typically average anywhere between 10-12% going in on most businesses that we acquire. In some situations, they're in the single digits and ramp-up. But I can't give you any more guidance than that, unfortunately.

But with the strong going-in FFO yields from Mexican pipeline and from the Indian telecom business, in addition to our business plans, we see very strong growth in our FFO per unit heading into 2020 at this stage.

Rupert Merer
Great. Thanks for the color. And then secondly in the last quarter we've seen lower rates in North America, South America and Europe. Give us a sense of what your opportunities could be for refinancing or for hedging your currencies in Brazil. Just an update on where you stand today, please.

Bahir Manios
Sure. I can take that one as well, Rupert. In the next couple of years, the good news is our maturity schedule is pretty light. So, I guess you may not see a huge pickup in our immediate FFO from refinancing activities.

But on the flip side, it's great that for at least the next five years we don't have any material maturities that we need to address in our business as a whole. With respect to your question on hedging, for all the OECD currencies, we're well-hedged into 2021.

And our thoughts on Brazil haven't changed over the last couple of quarters since we addressed this topic last, meaning, we think still it probably would make sense for us to hedge our FFO at least for 12 to 24 months. But we do need to see a bit of a pickup in the currency. The good news is this quarter, it's rallied a bit.

It's in and around the 3.70 to 3.80 range. But we'd like to see a bit more movement on that front before we decide to lock in any contracts there. So, I guess let's root for that. Maybe by the end of the year as pension reforms happen in the country, and hopefully we can give you some more color on this in the future.

Operator
And our next question comes from Frederic Bastien with Raymond James.

Frederic Bastien
It was great to get some color on all the organic growth initiatives that you have underway across your operating platforms. Just wondering if you could provide an update on how the U.K. distribution business is going.

Ben Vaughan
The U.K. distribution business continues to perform extremely well. It is exceeding our plans on connections for the year. And the sales, every year we've hit sales records and we're on track to achieve that again this year.

In addition to that, we're still seeing clients taking more and more of our product offering. So, we're able to sell multiple products into development. So far, there's been no deceleration of activity in our distribution business in the U.K. It's been performing very well.

Bahir Manios
I'll just add one small comment to Ben's. Just recall also that we've got a pretty big backlog in that business. So, notwithstanding the strong sales activities that Ben just noted, we've got about three to four years' worth of growth that will come into our results with the continued buildout and investment of that backlog.

So, we would still expect to be generating anywhere between 7 to 9% AFFO growth in that business, just from our backlog alone, for the foreseeable future.

Frederic Bastien
Okay. And does the potential for a hard Brexit change that view?

Bahir Manios
At this point, your guess is as good as ours. The U.K. is a fantastic country. There could be a slight dislocation in the near term. We just don't expect that at least housing levels are going to change materially.

Given that most of this activity happens within and it's spread out well across the country and the country doesn't actually have a huge shortfall when it comes to housing. So, we might see some dislocation from a sales activity perspective, but we continue to think that at least our order book would get built out.

Sam Pollock
And Frederic, maybe just to speak more high level. Look, we obviously, across Brookfield, we have significant investment in the country. And as you know, Bruce lives there now.

And I think our general view is that we expect that the right things will get done and there won't be a calamitous fallout. But even if there is, the capacity for the country to weather the storm and muddle through and succeed in the long term, it's proven to do that century after century.

So, we're confident that whether or not there is a delay in how they restructure their trade arrangements with Europe, they will ultimately get it done and that business will continue on as

it has for many decades and centuries. So, I don't think we should get too panicked about what happens over there. And I think, all in all, while it may not be the optimum outcome that we all would prefer, I think it will be fine.

Operator
Our next question comes from Devin Dodge with BMO Capital Markets.

Devin Dodge
So, on the sale of the Australian portion of G&W, do you expect the proceeds to reduce your capital commitment? Or will these funds be retained in the business to do tuck-in deals? And maybe any kind of commentary on how that roll-up pipeline looks right now.

Sam Pollock
So just on the sources and uses of the transaction, we sculpted the equity check to match the transaction assuming it was going to get sold. We effectively knew at the time of signing that we would have it sold so this was all pre-baked. And so, the $500 million that we intend to invest will be largely that. And I think your second question was just on initiatives within the business. Am I correct? Is that right?

Devin Dodge
Just how the M&A pipeline looks for G&W.

Sam Pollock
Yes. So, the pipeline is actually reasonably good. We didn't buy the business on the assumption that it would be able to achieve the level of tuck-ins that is has done in the past. I think that's somewhat upside to our underwriting case.

But there are a number of transactions in the market. I think in the next couple months, the activity level for them may be less just as they work with us to get through the regulatory approvals.

But post-closing, we expect to ramp up the business development efforts again and continue to execute what they've done in the past as far as integrating a number of tuck-in acquisitions and projects with Class 1s. So that part of the business plan will be unchanged.

Devin Dodge
Okay, that makes sense. That's helpful. Maybe just sticking with G&W. But many of the larger North American railroads are adopting at least some form of precision scheduled railroading.

I don't think this is an option for a short line railroad. But as you interchange with the Class 1 rails for most of your freight, do you think their move towards PSR will have an impact on your operation either in a positive or a negative way?

Sam Pollock
No, I think it's all positive. And I think this notion that you can't achieve the cost savings with short ones that you do on the Class 1s, I think is a bit of a myth. I think the more that we look at

it and have done our analysis, we think that there are different forms of precision railroading that you can do with the Class 2s to take out costs.

And I think as it relates to the Class 1s, we've already had lots of inbounds from Class 1s looking for opportunities to develop strategies for all of us to create value. And we're not quite sure yet what that will entail or if it's achievable, but there's no doubt there is a desire to collaborate further between the Class 1s and Class 2s to achieve cost reductions and drive business.

So that's something that hopefully we can add to the business. I don't want to imply that G&W didn't already have great relationships with the Class 1s. We know they do. But maybe our involvement can bring some other strategies to bear that would further that.

Devin Dodge
Okay, that's helpful. And maybe one last one. The commentary on Enercare seemed quite positive. It seems like BIP is looking at more of a roll-up strategy in the U.S. Can you give us a sense for which regions look attractive, maybe the multiples you pay for these kind of tuck-in deals and the benefits that scale brings to this business?

Ben Vaughan
The U.S. has a highly fragmented market on the HVAC front so we're pretty excited by the opportunity for smaller tuck-ins and roll-up strategy. We're mostly focused in the U.S. South. So, markets like you saw the deal that we did here in Phoenix.

I'd say that's generally the area that we're targeting. And the multiples, it sort of depends on the business, but our strategy is to convert what would have been either sales of units or just pure servicing organizations into long-term rental contracts.

So, we're looking at a pretty significant ARB, if you will, of what you can buy some of these businesses for and what we will ultimately convert them into over a longer-term strategy of building out our U.S. business.

And then, just in addition to the tuck-under acquisition strategies, we've seen so far in Enercare a higher conversion of our sales of HVAC, as Bahir mentioned, to long-term rental contracts, which has been great.

We targeted somewhere a little less than 10% of our sales converting and we're well up over 35%, which has been very attractive. And in addition to that, we've had success so far at bringing some additional strategies from the broader Brookfield to bear.

We've actually launched our pilot project with the utility in Texas that Bahir mentioned, to basically get them to help us be an additional sales channel for the business.

So far, I'd say tuck-unders are one part of the story, but the overall growth strategy at Enercare in the U.S. we're pretty excited about and on a few fronts so far, is exceeding our expectations, which has been great.

Operator
Our next question comes from Andrew Kuske with Credit Suisse.

Andrew Kuske
Early in the week we saw the Vodafone announcement of the creation of a TowerCo and a fairly positive stock reaction that followed. So, is that dichotomy of valuation between the OpCo in a mobile sense and then the InfraCo, is that the core of your telecom thesis?

Sam Pollock
Are you referring to the Vodafone announcement?

Andrew Kuske
Yes, exactly.

Sam Pollock
Well look, I think part of it is a financial arbitrage. There's no doubt that there is an ability to surface value for a lot of telco's just from exposing the different parts of their business and breaking them out from their operating businesses. And we've seen that done across many industries.

But I think it goes much deeper than that. I think what we've witnessed in many industries, but we believe it exists in the telecom sector, is that because they get so large, even though you would think that there's obvious synergies to being able to bundle services whether it's services for utilizing fiber optic systems or bundling storage services or obviously all their video and other content.

Often what happens is, as they look to deploy capital and they have limited amounts of capital to deploy, they put it towards what they think are the most important things and they under-capitalize and under-attend various parts of their business.

And so, we think, much like what we saw when many industrial companies used to own all of their real estate, is that they just weren't as good at managing those types of assets and that professional owners of those types of businesses could extract more value.

I think there is a financial arbitrage, but I also think that groups like ourselves can commercialize towers, fiber optic systems and storage, data center businesses, storage businesses, by creating more third-party revenues and just running them at lower costs than what some of these large businesses can do because they're not paying as much attention. So, I think when you think of the whole thesis, you need to think of it as far more than just a financial exercise.

Andrew Kuske
Got it. That's helpful. And I guess an extension of some of those comments. Most of these transactions you have higher going-in multiples on some of the communications infrastructure, but also much higher rates of growth than you would in a lot of, let's call it traditional infrastructure. What's the sweet spot for you in these kinds of transactions? What kind of rates of growth do you really underwrite?

Sam Pollock
And are you referring to any type of data infrastructure business in particular? Because they're all somewhat different.

Andrew Kuske
Yes, you could talk about data centers or towers where if you got multi-tenants on a mast, obviously it's quite high if you're starting with one tenant and you scale it from there. But any color would be appreciated.

Sam Pollock
Yes. So look, I think if you look at the data center businesses, I think with, let's call it mature businesses that are in the retail co-location part of the market, which is not as much development-oriented, then low to mid-teen type multiples would make sense, given the growth rates and the cash conversion that you have in the business.

You can achieve and we have paid multiples in the high teens, low 20s for businesses that serve the hyperscale market because you have much more of a development business attached to it and the value generated through your development pipeline is extremely high.

And usually what happens is, after building out the existing portfolio, that usually takes two or three years, you buy down your multiple to those low teens. And then you just have a highly contracted portfolio. And obviously, when we're looking at doing these types of investments, we're trying to get as much of that development engine for free.

And so, we're looking to buy down that multiple very quickly. And in the case of Ascenty and in the case of DCI, the two hyperscale businesses we bought last year, that's what we fully expect to do. In the towers business, it all depends on the type of market you're in and how much you expect the co-location opportunity to be.

In the Indian market, we've actually assumed a relatively modest level of co-location just given the consolidation that's gone on. But that could be where we could over-exceed our underwriting and hopefully do a lot better.

But given the, again, the historic high cash conversion from the towers business and just the number of equipment that you've been able to add to the towers over time and additional fees you can generate from that, that's justified, frankly, the high double-digit low-20x multiples in those businesses. We have not paid those historically, but we definitely see that in the market.

Andrew Kuske
That's helpful. One final one, and a really simple one, just on the Mexican pipe. And I might have missed it in the disclosures. But is Fernaca your partner?

Sam Pollock
No.

Operator
I am not showing any further questions at this time. I would now like to turn the call back over to Sam Pollock for any closing remarks.

Sam Pollock
Thank you, operator, and thank you to everyone who joined our call. And thank you for all the analysts for the questions. And we hope everyone has a great rest of the summer and we look forward to speaking to you again next quarter and updating you on our progress. Goodbye.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.