Brookfield Infrastructure Partners (Q4 2022 Results)

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Corporate Speakers:

- David Krant; Brookfield Infrastructure Partners L.P.; CFO & Managing Partner
- Samuel Pollock; Brookfield Infrastructure Partners L.P.; CEO & Managing Partner
- Benjamin Vaughan; Brookfield Infrastructure Partners L.P.; COO & Managing Partner

Participants:

- Cherilyn Radbourne; TD Securities; Analyst
- Robert Kwan; RBC Capital Markets; MD & Energy Infrastructure Analyst
- Frederic Bastien; Raymond James; Analyst
- Robert Hope; Scotiabank; Analyst
- Rob Catellier; CIBC Capital Markets; Executive Director of Institutional Equity Research
- Devin Dodge; BMO Capital Markets; Analyst
- Naji Baydoun; iA Capital Markets; Analyst
- Andrew Kuske; Credit Suisse; MD, Head of Canadian Equity Research and Global Co-ordinator for Infrastructure Research

PRESENTATION

Operator: Good day, and thank you for standing by. Welcome to the Brookfield Infrastructure Partners Q4 2022 Results Conference Call and Webcast. (Operator Instructions) It is now my pleasure to introduce Chief Financial Officer, David Krant.

David Krant: Thank you, Andrew, and good morning, everyone. Welcome to Brookfield Infrastructure Partners' Fourth Quarter 2022 Earnings Conference Call. As introduced, my name is David Krant, and I'm the Chief Financial Officer of Brookfield Infrastructure Partners. I'm also joined today by our Chief Executive Officer, Sam Pollock.

I'll begin with the discussion of our fourth quarter financial and operating results as well as touch on our balance sheet strength and robust liquidity position. I'll then turn the call over to Sam, who will reiterate the merits of owning infrastructure investments throughout market cycles and provide an outlook for the year ahead. Following our commentary, we will be joined by Ben Vaughan, our Chief Operating Officer, for a question-and-answer period.

At this time, I would like to remind you that in our remarks today, we may make forward-looking statements. These statements are subject to known and unknown risks,

and future 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.

With that, I'll now move on to a discussion of our record results. 2022 was another successful year for Brookfield Infrastructure. The essential nature of our assets showcased their attractiveness by continuing to generate predictable and growing cash flows. Funds from operations, or FFO, for the year was $2.71 per unit, representing a 12% increase over the prior year. We ended 2022 with our highest quarterly FFO to date of $0.72 per unit, which exceeded the prior year by 11% and resulted in a payout ratio for the fourth quarter of 64%.

We're entering the new year in a solid position to expand the company organically and through acquisitions, driven by the significant momentum in a number of our operating businesses. This momentum is further supported by our long-term debt maturity profile and significant liquidity. Taking into account the strong results for the year and a favorable outlook for the business, the Board of Directors have proposed a quarterly distribution increase of 6% to $1.53 per unit on an annualized basis. This marks the 14th consecutive year of distribution increases.

I'll now go through the key drivers behind our strong financial and operating results for the year. FFO totaled $2.1 billion, reflecting a 20% increase compared to 2021. Results benefited from organic growth for the year of 10%, capturing elevated inflation in the countries where we operate and volume growth across the majority of our critical infrastructure networks. During the year, we commissioned over $1 billion of new capital projects that are now contributing to earnings as well as deployed a further $1 billion into new acquisitions that favorably impacted results.

Starting with the Utility segment, we generated FFO of $739 million, an increase of 5% over the prior year. This growth reflects an average inflation indexation of 8% that positively impacted almost our entire asset base and the contribution associated with $485 million of capital commissioned into our rate base. Results also improved from the contribution of two Australian utility acquisitions completed in the first half of the year. Partially offsetting these results were the impact of higher borrowing costs at our Brazilian utilities, as well as the sale of our North American district energy platform completed during 2021.

Our U.K. regulated distribution operation recorded another strong quarter of sales activity, ending the year with a total of 339,000 connection sales and a record order book of 1.5 million connections. This was the company's best year of sales and was 5% higher than our record set last year. Performance was solid across all utility offerings with notable outperformance in the sale of water connections, which increased by over 40% relative to the prior year.

In Australia, our regulated utility business recently secured an agreement to build greenfield electrical infrastructure to support a blue-chip customers construction of three

new hyperscale data centers. The project will help connect new utility-scale renewable power generation and highlights the attractiveness of building greenfield utility infrastructure to support Australia's transition to net zero.

We're continuing to grow our global residential infrastructure platform that has a presence in five countries and offers a range of heating, cooling and energy storage solutions. Most notably, in Australia, our smart metering business signed a contract with one of the largest energy retailers to deploy up to 1 million smart meters over the next ten years. This opportunity will require total capital expenditures of over AUD 600 million and is additive to the contracted growth profile we acquired with the business.

Across the residential platform, we continue to see exciting opportunities to launch new product offerings and help provide homeowners with decarbonization solutions, a trend that will be further accelerated with the integration of the recently completed acquisition of HomeServe.

Moving to our Transport segment. FFO was $794 million, an increase of 13% compared to the prior year. Results primarily benefited from inflationary tariff increases across all our businesses. Higher volumes supported by strong economic activity surrounding our networks, and the commissioning of approximately $400 million in capital expansion projects during the year.

Our rail networks realized an average annual rate increase of 6% and benefited from strong demand for bulk goods and commodities that underpin the global economy. Our global toll road portfolio, annual traffic levels and tariffs increased 4% and 10%, respectively, compared to the prior year.

And finally, at our diversified terminals operations, rates have been strong, and volumes for the year were up 8% compared to the prior year. This was driven primarily by robust demand for U.S. LNG export through our terminal, as well as the commissioning of the sixed liquefaction train earlier in the year.

Within our Midstream segment, FFO for the year was $743 million compared to $492 million in the prior year. This step change is primarily a result of the acquisition of Inter Pipeline that we completed in the second half of last year. Results were further aided by elevated commodity prices, which led to increased utilization and higher market-sensitive revenues across our base businesses.

Our North American Gas Storage business had its best fourth quarter on record as we captured the benefit of higher natural gas prices along the U.S. West Coast, stemming from curtailed gas supply and volatile winter weather conditions. The reliable energy supply provided by our gas storage infrastructure is playing a critical role in the shift toward intermittent energy sources that need to be matched to elevated demand usage during periods of extreme temperatures.

At Inter Pipeline, the conventional system saw a 6% increase in volumes compared to the fourth quarter of last year and reached record levels since 2018. We continue to progress the ramp-up of the Heartland Petrochemical Complex as the PDH unit achieved initial production of polymer-grade propylene, leveraging our experience of large start-up activities, production of propylene will increase in a staged manner over the coming months. We expect to reliably achieve high levels of integrated polypropylene production by mid-2023, with full run rate contribution to financial results by the second half of this year.

Finally, our Data segment generated FFO of $239 million, which was consistent with the prior year. Our underlying data businesses performed well as they continue to benefit from increasing customer utilization and network densification requirements. This year's growth was driven by additional points of presence and inflationary tariff escalators across our portfolio. These positive effects were partially offset by the impact of foreign exchange on our euro and Indian rupee-denominated cash flows.

In November, our U.K. wireless infrastructure operator completed the purchase of a portfolio of approximately 1,100 towers from a strategic investor who sold as part of competition approval requirements. The transaction required approximately $70 million of equity, of which BIP funded $20 million. The acquisition is expected to increase EBITDA by over 30% and will double the existing tower portfolio in the U.K. to solidify our position as the largest pure-play tower company in the region.

This excellent operational finish to the year, combined with the strength of our financial position gives us optimism as we enter 2023. Our corporate balance sheet remains well capitalized as reflected in our investment-grade credit profile. During the quarter, we further de-risked our maturity profile by raising $700 million in the Canadian debt capital markets. The issuance had an average term of seven years and proceeds were used to refinance existing debt.

With respect to our asset level nonrecourse borrowings, we proactively refinanced several near-term debt maturities. This includes refinancing at Inter Pipeline and our U.K. port operation. We also completed the initial debt funding associated with the U.S. semiconductor joint venture. As a result, less than 2% of our borrowing base is maturing over the next 12 months. This, combined with the largely fixed rate balance sheet that has an average term to maturity of seven years provides us with tremendous financial flexibility.

Finally, we ended the year with corporate liquidity of $3.4 billion. During the fourth quarter, we completed the sale of two previously announced transactions as part of our capital recycling program. With the closing of the telecom tower portfolio in New Zealand, and the first tranche of our recently constructed electricity transmission lines in Brazil, we raised nearly $400 million net to BIP.

Our liquidity position will be further enhanced by the proceeds from the sale of our Indian toll road portfolio, and our 50% owned freehold landlord port in Victoria,

Australia. After the previous sales did not receive regulatory approval, we signed a binding agreement to sell the port to a reconstituted consortium for AUD 1.2 billion, which was a 30x EBITDA multiple. Closing of these transactions is anticipated to occur in the first half of 2023, with net proceeds to BIP of approximately $260 million.

We are progressing several advanced-stage sale processes, and we recently launched the next round of asset sales that we expect will garner significant interest considering the current economic environment. Together, these processes should generate over $2 billion of net proceeds for the partnership this year. I'd like to thank you all for your time this morning, and I'll now turn the call over to Sam.

Samuel Pollock: Thank you, David, and good morning, everyone. I'm going to begin my comments today with a few words on why infrastructure assets are an attractive choice for investors during this economic environment, and I'll follow that with a summary of our strategic initiatives and conclude with an outlook for our business.

This past year, the global macroeconomic environment was characterized by elevated levels of inflation and corresponding interest rate increases that created market uncertainty and volatility. Although inflation appears to be cresting in most countries, it is possible that certain structural dynamics prove harder to abate, such as the effect of deglobalization, energy security and a tight skilled labor supply. This may result in continued near-term market volatility and downward pressure on corporate earnings with cyclical exposure.

Investments in infrastructure assets, such as utilities, pipelines, ports and telecom towers are essential for the function of the economy and society. While not agnostic to the macro environment, they typically perform well through all parts of the market cycle and notably outperform during economic troughs. This ability to generate steady long-term returns is driven by several key characteristics.

First, is their highly contracted or regulated revenue that is generally long duration, and therefore, provide sustainable cash flow predictability; second, is their embedded inflation indexation, which expands or at least maintains margins during periods of elevated inflation; and third, is their ability to grow during all economic cycles due to their essential nature and role in promoting economic growth. Combined, these attributes make the asset class an appealing investment choice in all market conditions.

Now there are many views on what lies ahead for the economy. The optimist, or glass half full market participant, could argue that inflation has peaked and will come back within the target range by the end of the year, implying fiscal policy to date has been effective. Or you could be in the skeptic, or glass half empty investor camp, which might be of the view that a tight labor market and continued wage pressures will make inflation tougher to abate in 2023 and that central banks will continue to raise interest rates higher than currently projected. Now we lean towards a more optimistic view of the year ahead, but we expect market volatility to persist until the direction of interest rates is more settled.

More importantly, Brookfield Infrastructure is a highly contracted, inflation protected, and well financed infrastructure company should perform well in either scenario. In terms of our strategic initiatives, we had a successful year for capital deployment that built upon 2021's record deployment. Over this two year period, we invested over $5 billion into new assets. During 2022, we secured $2.9 billion of investments that are now closed and will begin contributing to results right away. We also entered into a partnership to construct a state-of-the-art semiconductor foundry in the U.S. This innovative transaction has added approximately $4 billion to our capital backlog, and pioneered a new investment structure to deploy our large-scale and flexible capital.

With the recent closings of HomeServe and DFMG, which are part of that $2.9 billion, and the ramp-up of the Heartland facility over the next several quarters, and elevated inflation levels, visibility into our cash flow growth has rarely been stronger. This growth should be sustainable over the longer term, given our large capital backlog of organic projects, and our proven ability to grow the business through accretive new investments.

Favorable sector trends, which have been the catalyst for our recent acquisition activity, continue to support our investment pipeline. In addition to evaluating several corporate carve-outs, a large component of our deal pipeline is comprised of public to private opportunities.

As we stated in the past, the infrastructure super cycle is creating long-term investment opportunities that will require trillions of dollars. This is generating large-scale opportunities for well-capitalized players that can invest in growing operating platforms or be a partner of choice for government or corporate entities that have less access to the capital markets. That concludes my remarks for today, and I'll now pass it back to the operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator: And our first question comes from the line of Cherilyn Radbourne with TD Securities.

Cherilyn Radbourne: I wanted to start with a question on the M&A pipeline. In terms of the corporate carve-outs, and take private opportunities currently in that pipeline, maybe you could give us a bit of color on those by sector and by geography and comment on whether the year-to-date market rally has made any of the take private less attractive? And if you were able to establish toehold positions at lower prices?

Samuel Pollock: As you can appreciate, I'll probably be somewhat vague in my answer to those questions. What I can say is that, there are situations where we've taken modest toehold’s. That is part of our strategy to mitigate costs, and to give ourselves a competitive advantage, but as far as the balance between the two, I'd say it's equally balanced.

There are a number of companies, strategics, who don't have the same access to the capital markets or have seen their share prices drop. As a result, in order to raise capital to continue to grow their businesses, they are looking to private investors to either buy whole businesses or to invest on a partnership basis on certain elements of their business.

So that is definitely a source of opportunities for us. Similarly, despite the market rally, which you mentioned that took place in January, the market rally wasn't even across all companies or sectors. And so there still remains a number of situations, which we think remains priced at an interesting level. And there's still a discrepancy between where those valuations lie and where we think they would sit from a private market perspective.

So we continue to progress those situations. As far as sectors and geographies, they're fairly well balanced between North America and Europe, I'd say. That's where the largest percentage lie. Sector-wise, I think we have opportunities across all the sectors that we pursue, so it isn't really concentrated per se in one sector.

Cherilyn Radbourne: That's very helpful. And then David, this one is probably for you. On the record CapEx backlog, which is always nice to see, maybe you can help us better understand the duration of the backlog? And how much of it relates to the Intel partnership where it appears that you've already deployed about 1/3 of the expected outlay?

David Krant: In terms of our backlog you highlighted, obviously, Intel was the big contribution or addition to it in the fourth quarter, and that's a $14 billion capital project. Our share of that CapEx would be about $3.6 billion - $3.7 billion that we've added to our backlog in Q4, Cherilyn. That's on a net to BIP basis. the spend to date figure that we referenced in our materials of $1.1 billion, that's at 100%.

Our share of that is roughly $250 million. We're not near the same completion percentage that you may have inferred, we're probably closer to somewhere in the 5% to 10% completion on construction. It's still pretty early days on that construction project, it's likely to span several years.

Our backlog still remains over that next three year period that we plan on completing and commissioning. I'd say that's the biggest large-scale project we have in the backlog, the rest are smaller type rollout additions like we had at BUUK, at Enercare - some of the installations, so much smaller, shorter duration projects that we replenish quarterly with new sales as well. That's kind of a bit of color around the composition as well.

Cherilyn Radbourne: I see. Okay, so you've invested $250 million to date at BIP’s share. And over the next three years, it's $500 million, which is where I was sort of getting the 1/3 figure, but that's kind of the near- to medium-term outlook for it.

David Krant: Yes, and just for everyone the $500 million is the equity component of the $3.5 billion, so there will be additional capital, obviously.

Operator: One moment, please. And our next question comes from the line of Robert Kwan with RBC Capital Markets.

Robert Kwan: Just wondering, as you think about funding, and so you've got the self-funded kind of strategy around the organic plan. But in terms of highlighting the $2 billion of potential asset sales for this year, how did that size up versus what you're seeing on the acquisition front, and I guess the other avenue of financing. When you look at the deals in front of you, is there a reasonable opportunity to use a share exchange as a viable financing product.

Samuel Pollock: We get this question a lot about how we size the amount of capital that we look to recycle during the year, and I would say a lot of it has to do with just the natural maturity of our investments. We typically look to buy businesses, grow and de-risk them over a seven to ten year time frame, and then at that point in time, look to monetize them and start the process all over again.

We're at a stage in our evolution now that we've been growing the business for fifteen years, where we have a steady stream of businesses, and on average, we have businesses that would generate every year for us, probably forever now, $2 billion to $3 billion annually of proceeds from sale.

And so it's a rough estimate, $2 billion is probably at the bottom end of that number, it could be higher. And so we just bring to market the ones we think are the most de-risked and would generate the proper value and obviously take into account what the market is looking for the most. So we do do a bit of a high grading for whatever we think is appropriate. So there's a lot of thought that goes into that. But we feel really good about the assets we bring that we'll get good value.

As far as your question about other levers that we have available, that is something that we take a lot of pride in. I think what makes us unique is the fact that we are able to invest alongside lots of institutional investors, which gives us a lot more firepower.

We do have the ability to use shares in transactions like we did with IPL, and we've proven that those are well received and people, particularly in the Canadian market who know us well, in fact, seek them out. And then we have other levers that we can pull on just being part of the Brookfield complex. So long story short, depending on the amount of transactions in front of us and depending on if there's a really large transaction that we want to execute, we will look at all these different components and draw on them as needed to get a transaction done. There's no one right answer, but we have the whole collection of alternatives in front of us and using shares definitely is something that if we think the shareholders want to stay invested, we have the currency to do that with them.

Robert Kwan: Got it. Appreciate that color. If I can just finish just on some color from you on the rationale for where you decided to increase the distribution, 6% there. Organic growth in '22, as you know, it was 10% and then FFO was even higher. And then you had the Investor Day with the forecast for 12% to 15% FFO per unit growth into 2023, so just

what was some of the reasons for selecting that 6% kind of below the growth rate of those two other numbers.

Samuel Pollock: We had a good discussion at the Board, and we're blessed to be dealing from a position of strength, a lot of liquidity and a great outlook for FFO and a great year behind us. Other factors we take into account are the amount of capital that we're reinvesting back into the business to grow it. And as we looked at our business and the amount of capital backlog and potential for tuck-in acquisitions. We felt that it was better to retain some of our capital for that capital allocation purpose and maybe not go as high as we probably could have with the slightly higher distribution.

It's really just balancing a number of capital allocation decisions -- there's no right answer, but we felt that 6% was still a very attractive number for people in this market and would be well received.

Operator: And our next question comes from the line of Frederic Bastien with Raymond James.

Frederic Bastien: Just wondering if you could expand on the recent agreement you secured to build electrical infrastructure in Australia, I thought that was quite interesting. You mentioned the greenfield project will help support some hyperscale clients, so could you provide a bit more color on that and maybe perhaps the allocation of those data centers?

Benjamin Vaughan: Yes, so the AusNet contract, the one that we referenced in the materials this quarter, was basically one of the large hyperscalers wants to build a meaningful sized asset in our footprint, and they came to us to build the transmission access for that, and when we do that on a bilateral basis with these clients, it's a really attractive structure where it's very low risk on our part. The counterparty basically assumes the cost risk on the project and we build it through a stage gate process.

We're entitled through the contract bilaterally to a full return on, and return of our capital, so it sort of mimics the rate regulated, rate base construct even though it's a bilateral agreement. It is a very attractive project, and the counterparty was willing to engage with us on that basis because of the need to get this done in a timely fashion. So hopefully this is one of many projects like this that we will engage in, in the future, not only to build out to support big load like this hyperscaler in the region, but also as we've discussed renewables in the region would be similar.

Frederic Bastien: Okay. That's useful thanks. I guess moving to Europe. Just wondering if you're seeing, or contemplating opportunities to expand your tower portfolio to other European countries or is your plate full right now with the transactions you just completed in Germany and the smaller one you did in the U.K.

Samuel Pollock: There's two ways of us expanding our portfolio. One is to go into new countries, and the other is to do tuck-ins within an existing country. Recently, we did an add-on to our existing U.K. tower business, which was almost double the size of it.

We have our business in France, which given its scale, we're limited to doing more organic growth, than inorganic growth. And then Germany, obviously, we've got a large-scale business and again, probably limited to organic growth, versus inorganic growth. We do have a business in our Super Core Fund, which is not in BIP, in the Scandinavian countries, so we have a presence there.

I'd say we don't have too much white space left because a lot of the other countries, there has been M&A activity and a lot of them are held in more consolidated businesses, like Vantage and Cellnex and others, and so it's unlikely they would sell, so I think the opportunity to expand is limited. It's not to say that it’s not possible at some point in the future, but I think most of the growth going forward is likely organic.

Operator: Our next question comes from the line of Robert Hope with Scotiabank.

Robert Hope: I want to circle back on the asset divestitures. Can you maybe just add a little bit of color of what the environment is right now, where we are in these processes? Are we in price discovery? And have we seen kind of any change in the expected valuations of these divestments.

Samuel Pollock: I'll make a couple of comments. First, we have transactions at all phases of a transaction life, so some that are more advanced than some that are early stage, and we are active participants on both the buy side and sell side. I'd say our views on the valuation state of the market are probably pretty good. I think my comments generally would be on valuations for the most part, they've been steady and haven't changed meaningfully over the last year or so, even with rising rates.

There are some businesses that to the extent that people use higher leverage to buy them, they're probably the most impacted because obviously, the cost of debt has gone up, but many of our infrastructure assets are not financed at high levels, and so the impact of leverages is more modest.

The biggest thing that's changed in the market over the last year has just been the number of participants – it’s probably a little less than what would have been, and that's really not so much from an infrastructure manager or a strategic perspective because I think those groups have a lot of dry powder, and are still pretty active. We have seen some pension funds and sovereign wealth funds pull back a bit with some of the drop in equity prices, and that impacting their weighting in their portfolio, so the denominator effect, that people refer to, was prevalent maybe in the latter half of last year.

Now, having said all that, I think as the new year has started up, we've definitely seen a change in tone, and so I think while maybe not to the levels we would have seen at the beginning of last year, there's definitely more activity in the market. What is different I

think with infrastructure than some of the other asset classes, is because the credit markets are much more important for private equity, and real estate, there definitely was a decline in activities in those sectors, but we did not see that to the same extent in infrastructure. Infrastructure is still highly sought after and particularly in periods of volatility, it's an area that people want to invest in, so long story short, valuations are still good.

Everyone has different views of value, I think our views of what we think assets are worth are very reasonable, and they have not changed much. There might be other people who have elevated views of value, but for us, it hasn't changed much, and the market is still very strong and supportive for infrastructure as a whole.

Robert Hope: Great. Appreciate that fulsome answer. Maybe going back to your 2022 Investor Day and the outlook for 12% to 15% FFO per unit growth, just taking a look at the environment and taking a look at the headwinds and tailwinds, what are you seeing in terms of kind of pushing it one way or another? It does seem like the commodity-exposed business continue to be quite strong there.

David Krant: Look, at our Investor Day, obviously, we had similar insights to where we are today in the market. I'd say the market hasn't changed all that much. To your point, the commodity environment remains strong, and that's a tailwind for not only our midstream businesses, but a lot of our transportation networks that haul or transport bulk commodities. So I'd say the transport and the midstream sectors continue to perform well to start the year, and that will fuel again part of that outlook.

The other element is obviously the fact that we committed to, and have now already deployed the $2 billion of new investments in HomeServe and DFMG that will fully contribute to our results. Those would be, I'd say, the prevailing tailwinds that were certainly informing us and giving that guidance, and I'd say we still feel that same outlook is appropriate.

Operator: And our next question comes from the line of Rob Catellier with CIBC.

Rob Catellier: I'm wondering if you could give some indication of how the markets received the semiconductor joint venture, and what other industries might seem most suited to similar structure.

Samuel Pollock: In my many years at Brookfield, I probably have not seen seen as much interest in a single transaction, as I've seen in that transaction. Clearly, it was seen as innovative, the scale was large, and the fact that it was related to a very topical and critical industry brought a lot of interest towards it. Whether it's governments, other sectors, and obviously all our competitors and investment banks, everyone's been studying to see how they can apply to other semiconductor facilities, companies or other sectors.

So suffice to say, it's definitely being studied, and I think I would be shocked if in some different way, shape or form, it wasn't replicated again multiple times for other sectors. And obviously, we would look to do that ourselves. Where I think it's most applicable, you need to have large dollars, you need to have a long-life asset that you are supporting and you need a strong counterparty, or some sort of strong commercial framework to support the low cost of capital that makes the transaction interesting for both ourselves and for the use of the capital.

That could be battery manufacturers, I think other semiconductor facilities, and I think already a lot of energy businesses use the structure, and we're referencing a lot of the Middle East transactions, whether it's ADNOC or Saudi Aramco, we all use similar types of arrangements to finance their businesses. I think we'll see a lot more of it, and it's something, obviously, given that we feel we are at the forefront of arranging capital from alternative private sources, and packaging it together for investors, we think we should be hopefully doing a lot more.

Rob Catellier: Okay. That's very helpful. And then just one more here, sort of getting into the weeds on Heartland, but maybe you can elaborate on the process, the start-up process there, how it's tracking versus expectations? And if there's been any need for major rework or component replacements.

Benjamin Vaughan: Yes, so maybe just to go back through the commissioning goals we've had for Heartland over time. The first phase was to commission the central utilities hub, and that was done quite a while ago to make sure we had the power and steam to run the plant. The second phase was to achieve full production of the polypropylene side of the plant, so making the PP pellets and getting that up to full production, and so that has happened and that's behind us. The third phase was really getting the front end of the plant running. So the PGP end of the plant where we convert the propane to PGP, and that is now up, running and heading towards full production. So that's now largely behind us.

As we went through Phases two and three of that start-up, we also started up the full sales and marketing function. So we established relationship with customers, and we got all of our products approved by them, we now have over 100 customer relationships, and we have inventory in the system to ensure that we can service those clients.

Now we're in the final phase, which is to just get the methodical ramp-up of the full integrated facility up to full capacity, and I think as Sam mentioned in his opening remarks, we expect that to happen in the coming quarters here. In terms of, I'll call it, surprises, Heartland is a large complex, and for its size, I would say there was nothing material, no material surprise. The normal course, I would describe it as optimizing and a few odd minor teething pains as we started to plant up, but nothing major in the context of a start-up with this.

Operator: And our next question comes from the line of Devin Dodge with BMO Capital Markets.

Devin Dodge: Various points over the last couple of years, you were highlighting opportunities with ocean carriers, either partnering or carving out some assets. Are you still optimistic about opportunities in that sector? It just seems like there could be maybe a bit more motivation from these companies just given the rapid pullback of freight rates.

Samuel Pollock: During COVID, there was an unusual dynamic where charter rates went to all-time highs, and the shipping companies made amounts of capital that would have historically taken them ten or twenty years to make. So they really changed the nature of their businesses, and they were aggressive buyers of assets, and frankly, probably didn't need our help on too many things.

That dynamic has changed, things have gone back to normal. I still think that many of them are well capitalized. And so I can't say that the level of activity that we have with them today is extremely robust. It's probably just a normal conversational level. I think there's still things we can do with them, but when we look at, and I know I've said this many times in the past, our main strategy is to follow capital flows and to go towards groups that need money, and today, I wouldn't put them necessarily in that category. There are other groups that have huge amounts of capital needs, and need our capital more than they do, but that changes quickly, and we continue to nurture those relationships.

Devin Dodge: Okay. That makes sense. And maybe just a modeling question here for David. But hedged currency rates in 2023? Is it much different than what we saw in 2022?

David Krant: No looking into 2023, I think the guidance we gave at Investor Day was 1% to 2% below current levels, so nothing significant. And I think primarily, if you look at the currencies we have the exposure to on the GBP, so no, we don't see that as significant.

Operator: And our next question comes from the line of Naji Baydoun with Industrial Alliance.

Naji Baydoun: Just wanted to set off on the guidance for 2023. I think in the past, you've talked about a bit of a lag getting inflation adjustments in your tariffs and in your existing businesses to flow through results. Can you maybe give us a bit more detail about what is built into the guidance for this year in terms of the inflationary impacts?

David Krant: Look, I think as we mentioned, inflation still continues to run above targeted levels in pretty much all the regions we operate, so it will still continue to be a tailwind for our business into 2023. I don't think we're in a position to predict where that number will land for the year. With that being said, I think to your point, our businesses, most notably some of our U.K. and Australian regulated utilities they do lag into the local inflation levels. So RPI would be the one in the U.K., and that's usually on a 12-month lag.

We're getting inflation in the 4% range in 2022, that should continue to elevate as it looks back over the trailing twelve month period because I think inflation in the region today is above 10%. Those will be some of the businesses where you'll continue to see that tailwind, whereas others more predominantly in our transport and in our data businesses are usually as at a point in time throughout the year and don't have much of a lag to them. I'd say that's pretty much the outlook for inflation that we have as of today.

Naji Baydoun: Okay. That's helpful. I wanted to maybe get your thoughts on capital recycling. I think in the past, you've targeted a 2% to 4% investment spread from asset sales to new acquisitions. There have also been periods where you've been able to take advantage of market dislocations and beat that spread or realize a higher spread. Do you see the potential to do that again today? Do you think we're in that market environment again today?

Samuel Pollock: That's a very difficult question to answer, we're always trying to hunt for and focus on the highest return opportunities that meet our risk tolerance, and it's hard to predict what might come along.

I'd say that in today's environment, we feel that we have a good opportunity to invest for better value than another point in the cycle just because there are fewer market participants, and particularly with some of the institutional investors on the sideline for the time being, which may not last long, but for the short while, it just means that people with large pools of capital like ourselves are rare, and there's a few transactions at that higher level that we can maybe negotiate on a bilateral basis. So yes, we're trying, I can't make any promises, though.

Naji Baydoun: No problem. Maybe just a quick final question for Ben. You've been able to achieve a lot of positive things we see a lot of developments with the residential infrastructure business. I'm just wondering if you can give us a bit of color on sort of the key initiatives and the integration plan for HomeServe for this year.

Benjamin Vaughan: Yes, sure. On the demand side decarbonization businesses of the residential infrastructure businesses, we're now focusing them regionally. We basically have a great platform in Europe, we have one focused in the United States and one now in Canada, and we have established and focused management teams dedicated to each of those regions. There are a number of businesses, some that gather effectively leads and some that service those leads, so the key strategic priorities when you really look through it, is just to find the opportunities to make sure that all the leads that we're gathering to the greatest extent are being serviced by us, and to the extent they're not making sure we have very effective dealer networks in place where we can service our clients.

The real goal over time is to build a rate base of attractive long-term contracts, so we're trying to convert sales to long-term rentals, and build a rate base. Like I said, there are several companies, all of them that do different things, and we're just going to sort of

integrate that flow over the coming years to make sure we're building a rate base over time - I hope that's helpful.

Operator: And our next question comes from the line of Andrew Kuske with Credit Suisse.

Andrew Kuske: You mentioned a little bit of what Brookfield has done from a debt market perspective. How do you think about the upcoming maturities and just the functionality of the debt markets? And I ask the question in part because when we look at the term structure, and we've seen some higher quality credits place longer-term debt at pretty attractive spreads in the market, but how do you think about the upcoming maturities in this year and then next year?

David Krant: Yes, happy to give you some color, Andrew. I think first and foremost, I think we feel like we're in an excellent position for the maturities that we have in the next 24 months. I think the team here has been focused for the last probably 12 months on taking care of a lot of those, and we've talked about some of those in our materials for the last year in terms of pushing out maturities to give us that financial flexibility while rates remain elevated.

I think the benefit, as Sam alluded to, for the infrastructure sector is that debt capital markets have remained open throughout the year. And that is specifically related to investment-grade markets where we finance the vast majority of our businesses, over 90% of them, so at the asset level, we've had robust access to capital. At the corporate level, we've demonstrated that as well.

I think we feel very well positioned. I think if you look at our maturity profile into 2023, as we said, less than 2% are actual maturities, the others are normal amortization that we will have covered with operating cash flows. I think 2023 is largely taken care of. There's a few in 2024 that we're progressing now, and to your point, spreads and activity in the capital markets is pretty positive, and we'll look to take care of those in the first half of this year, in due course. I think we feel good at these levels, and they're still very accretive to our underwriting of these businesses in terms of the returns we target. I think we're well positioned.

Andrew Kuske: I appreciate the color. And then maybe the flip side of it. There's others that maybe got too far over their skies. Are you seeing any kind of interesting dislocations that are either market-specific or industry-specific that are thematically interesting to you.

Samuel Pollock: Where we spend a lot of time focusing is companies that either have balance sheets that was maybe not the right amount of liquidity, or just a lot of near-term maturities and even more so companies that have that, as well as big capital commitments. So yes, that's a big part of our screen. As far as the level of distress, I don't think we're seeing anything like what we would have seen back in the financial crisis,

there's nowhere near that level of anxiety as the infrastructure sector is still pretty well open to most people. But for some public companies, it's created opportunities.

Probably where it creates situations for us, is its required some companies to either slow down or shut off their growth initiatives in order to manage their financial position. Obviously they feel that's destructive to the value of their businesses, and so they want to find ways to get those going again, and that creates the ability for us to come up with unique partnerships or buying certain assets that help them get their businesses running again. That's kind of the theme of how we approach it, but yes, we have our filters open and looking for ways where we can help solve their financial situations.

Operator: Thank you. I will now turn the call back over to CEO, Sam Pollock for any closing remarks.

Samuel Pollock: Thank you, operator, and thank you to everyone who listened to the call and joined us this morning. I hope your new year is off to a great start, ours has been, and we appreciate your support and look forward to talking to you again next quarter. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call and webcast. Thank you for participating, and you may now disconnect.