Brookfield

TRANSCRIPT: Brookfield Investor Day

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BROOKFIELD INFRASTRUCTURE PARTNERS LP

CORPORATE PARTICIPANTS

- Suzanne Fleming – Managing Partner of Branding & Communications
- Sam Pollock – Managing Partner & CEO
- Hadley Peer Marshall – Managing Director, Infrastructure
- Bahir Manios – Managing Partner & CFO

PRESENTATION

Suzanne Fleming – Managing Partner of Branding & Communications

Welcome to Brookfield's 2019 Investor Day. My name is Suzanne Fleming, and I head up communications and branding for Brookfield. I want to thank you for joining us, and I know we have some people online who are watching as well, so thank you, everyone. Just a couple of housekeeping notes before we get started. As with previous years, you should all have an iPad, everyone in the room, and we'll be using these for both our presentation and the interactive portion and also with previous years, if you can just leave it, there's a table outside, you can just leave it on your way out. We'd like also to remind you that in responding to questions and in talking about new initiatives in our financial and operating performance for the Brookfield companies presenting today, we may make forward-looking statements, including forward-looking statements within the meaning of applicable Canadian and U.S. law. These statements reflect predictions of future events and trends and do not relate to historic events. They're subject to known and unknown risks and future events may differ materially from such statements. For further information on these risks and their potential impacts on our company, please see our filings with the securities regulators in Canada and the U.S. and the information available on our website.

One final point for everyone in the room, at the end of each session, we're going to have a Q&A and you can either ask questions by putting your hand up, we have some mic runners or you can click on the Q&A button on your iPad. And finally, at the end of the day, we will have a cocktail reception, it's down on the fourth floor in this building, so we welcome you to join us.

Sam Pollock – Managing Partner & CEO

Good afternoon, everyone, and thank you for joining us for Brookfield Infrastructure's portion of today's Investor Day. I appreciate you all sticking around, and we're very thankful of your support for Brookfield Infrastructure. My name is Sam Pollock, and I'm the Chief Executive Officer of Brookfield Infrastructure, and presenting with me today is Hadley Peer Marshall, who is one of our Managing Directors in our credit platform; as well as Bahir Manios, who many of you know, is our Chief Financial Officer.

For our presentation, there's really four parts to the agenda. The first part will be myself going through a recap of the last 12 months. And then Hadley is going to come up and is going to talk about the current state of the debt capital markets from an infrastructure perspective and how that plays into our approach and strategy of financing our recent transactions. Then Bahir is going to come up and, while we've probably done similar type discussions in the past, he's going to reiterate why we think Brookfield Infrastructure is a high-quality utility-type investment. And then I'm going to come back up and conclude with remarks taking through yesterday's announcement of our unit split and creation of Brookfield Infrastructure Corporation, and also give you a brief outlook for the business for 2020.

Let me begin with the year in review. And I'd say, by all measures, the last 12 months have been extremely successful. Our financial performance has been extremely good, propelled by solid same-store growth across all of our businesses, as well as the added contributions from a number of new investments that we've made over the last 12 months. We've also financed these businesses from both asset sales, as well as from the recent equity issuance and that has allowed us to maintain a very strong balance sheet. And then on the back of these strong results, execution of a number of key priorities that we've laid out for you over the past year, as well as what I'd have to say is very positive market sentiment, our unit price has achieved all-time highs.

I'm going to start with talking a bit more about our performance. We are on track for the remainder of this year to deliver solid FFO growth. And you might recall that at last year's Investor Day, Bahir would have laid out a plan where we expected to increase our run rate FFO per unit by approximately 20% in the fourth quarter 2019, from at that time 2018. And I'd say, we're very pleased with the fact that we are well on our way to achieving that goal. Our expectation is that our exit run rate will be approximately $3.50 in the fourth quarter on an annualized basis. And while this might be slightly lower than what we thought last year, that's really only because of two factors. One is, we recently raised some equity, and we haven't fully deployed that capital, but we do have the dilution from the higher share count. And we also have a low FX headwinds in Brazil. But if you look out one quarter with the capital that we have been deploying as a result of that equity issue, we're expecting to be higher than that 20% run rate. And so, looking into 2020, we're well on our way to achieving these goals.

From a balance sheet perspective, we remain well-capitalized. We have over $3 billion of liquidity and our credit ratings remained strong at BBB+. We have no significant near-term maturities. In fact, we have less than 5% of our debt that's maturing in the next two years. And while we're expecting the credit markets and the financial markets to remain pretty resilient and strong over the next while, even if things do turn and things become a little bit more difficult, we have the balance sheet liquidity to definitely withstand anything that might come our way.

Now, looking at some of the important initiatives I spoke about. Probably one of the biggest things that we have been trying to do over the last number of years is execute our capital recycling program. This is a big part of our overall funding strategy. And this past year, we've had a lot of success. So far in 2019, we've already generated $500 million of proceeds from capital recycling, and we're targeting to generate another $500 million in the latter half of 2019, which will take our total proceeds from asset sales in 2019 to just over $1 billion. Now, the sales that comprise those proceeds are coming from four businesses that we've sold. The first one is our Colombian electric utility. We sold two-thirds of our Chilean Toll Road business. We're selling and in the process of selling our Australian District Energy business. And we sold one portion of our European ports business.

Just to tell you how we've done on those sales, the sale of our South American assets have generated IRRs of approximately 17% in U.S. dollar terms, and in local terms, in fact, if not for FX headwinds, we achieved over 25% IRRs. The multiple of capital on those is, in U.S. dollars, around 3x and well over 4x in foreign currencies. And the Europe ports and Australian District Energy business, those were all part of the

Babcock & Brown transaction that we did in 2009/2010, and that transaction as a whole has generated returns over 25%. So, all in all, we're pleased with the success of a number of these investments.

Now the proceeds of these asset sales are being put to good use. We've identified four exciting new investments in the data, transportation and energy sectors, where we're looking to make investments that, hopefully, will close the end of this year or early next year. We expect to invest approximately $1.3 billion in these businesses, and we expect them to be immediately accretive to our business from FFO perspective. And we also believe that, taken as a whole, they will have higher longer-term growth potential than the assets we just recently sold. So, I'm going to tell you about those four businesses.

The first one I want to talk about is an acquisition of a $2.3 billion fully integrated data distribution company in New Zealand. Alongside a local investor, we bought a 50% co-controlling interest in this business, and it's a nationwide provider of a central broadband and wireless services to about 2.5 million customers in New Zealand. Our share of the transaction is about $200 million, and we believe we bought it on a value basis, as we bought it around 7x EBITDA. Now what's interesting about this business is that it's one of two main local operators that own their networks. And with the significant incumbent advantages, it has very resilient cash flows. But what really made us attracted to the opportunity was the fact that not only do we have an attractive going-in yield, but we recognized that this business, compared to the other main competitor, had margins that were 10% lower. So, its margins were around 20%, the other business was operating at about 30% margin. And so, ourselves and our partners had very strong conviction that we can improve those margins and grow our cash flows significantly and, hopefully, generate a return well in excess of 15%.

The second business, and this is the one that people in the U.S. may be more familiar with, is in July, we announced the $8.4 billion acquisition of a North American rail company called Genesee & Wyoming. This transaction, I should say, is still subject to shareholder and regulatory approvals, which we hope to have in hand in the next two or three months. Now G&W, I'll call Genesee & Wyoming G&W for short, for those of you who don't know this business, it's for the most part, a North American business, but does have some operations in Europe. It's the largest short-line rail operator in North America and has over 120 lines and over 26,000 kilometers of track. So, it's a business with substantial scale. What's interesting about it is it serves 3,000 customers across a vast array of commodity groups. And what that does is, it provides greater diversification. So, as I was saying, this business is highly diversified. And as we talk about with all our businesses, we think diversification is a great way to achieve risk reduction.

The other part of the business that makes it a very sticky, solid business is the fact that it is an essential part of the transportation and logistics network of North America. When you think about the various customers who use it, these lines are basically the last-mile connections that they have to their clients and suppliers. And so, they have to operate on these. This is generally an operator that services bulk loads and, as a result, there really are no other alternatives to move that cargo.

We're planning to invest approximately $500 million into this business alongside our partners. And we think with our expertise and experience in operating rail businesses and logistics businesses around the world, that we can create a lot of additional value in this company.

The most recent transaction that we've just signed up was the acquisition of two co-controlling operational natural gas pipelines that take natural gas from the Texas border, which is fed mostly from the Permian Basin, and bring it down into the industrial heartland of Mexico. These pipelines are around 740 kilometers in length. They are fully contracted and regulated. They have long-term, take-or-pay arrangements with creditworthy counterparties, so, in fact, investment-grade counterparties. And so, what that means to us as owners is, first of all, we're taking no volume exposure. We have no commodity price exposure. And these assets generate U.S. dollar revenues, and they're also indexed to inflation. So,

we believe because of the turmoil that's been going on in Mexico that we bought these assets, that are effectively very bond like, at a very good value. Our investment in these assets will be about $150 million.

And then lastly, the next transaction I want to talk about is one that we haven't secured yet, but we do have an exclusive arrangement to acquire these assets from Reliance Industries. It's exciting because this is a newly constructed, 130,000-tower portfolio in India. This transaction came about as a result of our working with Reliance Industries. Last year, we bought a gas pipeline from them. And we've established great credibility with them as a party that can effect carve-out transactions. What's interesting about this deal is the fact that it's been structured so that we earn effectively a minimum return on our investment from a 30-year MSA contract with Reliance Jio, which is our anchor tenant and the largest telecom operator in India. Our returns will be further enhanced by commercializing the portfolio. Today, it only services that one customer, but there are two other large operators in the market. And we will take the additional capacity we have on those towers and hang the equipment from those other two operators. And that will, obviously, increase our return substantially.

The towers are extremely valuable. We're confident that the other customers will want to put equipment on our towers is because these towers, unlike most other Indian towers, are fiberized and, therefore, can take 5G equipment. Now we're in the final stage of due diligence, and we hope to conclude the transaction shortly. It's expected that we'll probably invest around $400 million into this transaction.

We probably won't do this every year, but we thought this is a good year maybe to put up the stock chart. It's been a pretty good year. And some of that is a recovery from last year's weakness in the general market. But I think the main takeaway is that our goal is to deliver value on a long-term basis for our unitholders. We're pleased that we continue to outperform our peers. And we're just happy that the market will recognize the value that's being created.

So, with that, I'm going to ask Hadley to come up and talk about our strategy in these current debt markets.

Hadley Peer Marshall – Managing Director, Infrastructure

Thank you for having me. I'll give a quick introduction to myself, and then I'll dive into our debt strategy. I lead our infrastructure credit platform for the Americas, but I also work closely with our capital markets team in terms of advising on how to efficiently and prudently finance our assets. Before joining Brookfield, I worked at Goldman Sachs as the co-head of the project finance group. There I spent a lot of time advising different infrastructure funds, including Brookfield, on how to finance their assets.

I serve as a good example of the type of in-house expertise that we use in order to execute our financing approach. You've heard us discuss this approach in the past, but today we want to give you more context, given the importance and the fact that the markets have definitely been favorable to us, but we want to remain conservative and disciplined. So, I want to outline how we play that forward in this presentation.

So right now, we're seeing an abundant amount of capital being attracted to infrastructure debt, which has pushed down the cost of that debt. And really, it's provided for more markets to be open and available to infrastructure financing. However, we remain resolved in making sure that we appropriately finance our assets in order to protect the balance sheet, while also taking advantage of the current market state, and the cost of debt, in particular.

Now first, I'd like to give a little bit of background in terms of the different financing sources that are available to infrastructure. As you can see, the very first line, project finance bank market. This is the dominant source of financing for infrastructure. In fact, about 90% of deals flow through this market. It provides committed financing and an attractive cost of debt.

The second option is the investment-grade bond market. It's a smaller segment of the overall volume, but it does have the benefit of providing long-term debt at fixed rate up to about 30 years, just to give you an idea for tenor.

The next three options weren't really financing sources a while back. But given the current conditions of the market, and regulations that have curtailed banks' appetite for levered infrastructure debt plus investors seeking yield, it's opened up these markets to infrastructure financing. Now, when you look at the Term Loan B in the high-yield bond market, that's what we consider the leveraged finance market. And when you add in private debt capital, they're primarily focused on non-investment-grade credits.

Now, we do use these markets occasionally from time to time, but about only 10% of our deals have actually been financed through this market. And the reason why is, we really like to focus on the investment-grade bond market as a permanent source of capital. It provides that long-term debt so we minimize refinancing risk and fixed-rate debt so that we minimize interest rate risk. In fact, we think that all of these markets are actually a benefit to our business because we have multiple sources of available capital to us, especially in times of volatility.

Now earlier, I said that we think these favorable market conditions lead to good time to be a borrower, especially in infrastructure. And here's a good example of that. As you can see, the cost of debt has come down significantly. It's been over nine years since we've seen a credit downturn, and that longevity has created these favorable market conditions, including the cost of debt. Interest rates have dropped to about 1.7% for the U.S. Treasury, which is pretty close to an all-time high compared to back in '80s, where we saw 15% at an all-time high.

The other interesting part is that credit spreads have also come down. So, if you think about that, they've come down in line with interest rates, which means that you're getting compensated the same for taking more risk compared to 10 years ago.

Now, overall, we benefit from this cost-to-debt. And as an example, we were recently in the market with our last-mile utility network business in the U.K., which issued a U.S. investment-grade bond with a weighted average life of 15 years at 2.36%. So that means for 15 years, we've locked in 2.36%. So we're not exposed to rising interest rates. In fact, the overall portfolio is well protected because we have about an eight-year duration.

The other aspect of the favorable market conditions is the abundant amount of capital. As an example, you can see in the purple, that's the investment-grade bond market, and it has issued $1 trillion per year over the past five years. And then the lighter two gray bars, they represent the Term Loan B market and the project finance bank market. And even in those markets, we're seeing record issuance levels.

The reason why we're seeing this is because new entrants are coming into the market looking for yield and coming down the credit curve to find that yield. And some would even say we're back. We're back to 2006, 2007 pre-credit prices levels, where you can get leverage and covenant-like transactions in the market. So, I'll explain this graph for a second. If you look at the blue line, you'll see that the turns of leverage available in the market is about 0.5 turn higher compared to 2007. The gray line represents the percentage of deals that are considered covenant light and were about 80%.

Now regardless of these bull market conditions, we remain conservative and disciplined. We aren't enticed by offers of excess leverage, and we prudently finance our investments. We make sure that we have strong balance sheets and that we have access to multiple sources of capital.

There are five core objectives that I wanted to walk you through because they really answer the question that may be in your minds of why we are conservative and what does it actually mean to be disciplined. These objectives really are the foundation to our financing approach.

The first one is liquidity. We make sure that we have ample amounts of liquidity at the asset level, as well as at the BIP level, in order to make sure that we're not in the market at inopportune times raising capital.

The second is we ensure that our debt financings are resilient through the various cycles of the market and limit financial covenants and other structural features so that we're not impacted by liquidity events.

The third one is flexibility. We appropriately size our debt in order to make sure that we can run our business with the flexibility that we need in order to generate these operating efficiencies and grow the top line.

Four is unrestricted cash flows. We want to make sure that we've issued debt that allows for cash flow to go up to the BIP level unrestricted.

And five, finally, we want to make sure that we have access to multiple sources of capital in order to limit any market volatility that could impact that liquidity.

The other benefit to Brookfield is that we have very strong relationships with the debt investors. So, it's the bank market and the institutional bond market investors. And we actually receive strong reception in the market, which is a competitive advantage for Brookfield.

Now earlier I mentioned about 10% of our deals are financed in the Term Loan B market, and we have two examples that we wanted to walk you through today in order to express how we are conservative and disciplined in our approach even in that market.

The first one is a North American rail business. Now, Sam discussed this business a few minutes ago, and as he mentioned, we haven't closed this deal, but we do have committed financing in place. Before going through the numbers, I wanted to express that we did not use leverage to drive our returns. We used our underwriting case in terms of operating efficiencies and top line growth to really generate these attractive returns for the marquee asset. What we do is we use leverage for optimization only. And as you can see, we put in place about 4.25x of leverage, which translates to about a 35% loan to capitalization. That's a very low leverage, especially given the fact that banks were offering us 6.5x of leverage.

The lower leverage allowed us to accomplish two things: one, the cost of debt came down; and two, we had less financial covenants put upon us. In addition, the lower leverage will help us position this credit when it comes to the Term Loan B market appropriately and to generate a strong investor base because this investment has not been in the market before for the Term Loan B market.

Our next example is the Western Canadian midstream business, and you're going to hear the same themes that I discussed for the previous case study. We did not use leverage to drive our returns. We are underwriting this business in order to generate operating efficiencies and grow that top line and have the flexibility to execute on our business plan. So, we've put in place 4x of leverage, even though the market was offering 6.25x of leverage. In fact, the lower leverage represents, for this deal, the fact that it is one of the highest-rated credits and the leveraged finance base for midstream.

I'd like to leave you with a few lasting thoughts in terms of how we think about our financing. The first one is, there is a lot of capital that is looking to invest in infrastructure debt that finds the asset class attractive for the same reasons that we all do, the characteristics of infrastructure, plus, in this market, it has already been determined their historical data that it has low default rates and higher recovery rates. And that capital coming in is bringing down the cost of debt, which Brookfield benefits from. But we remain conservative and disciplined to our approach. We are laser-focused on our liquidity in making sure we minimize any impact to that and have access to multiple markets. That approach supports our BBB+ rating and the ample amount of liquidity available to us.

So, with that, I will turn it over to Bahir.

Bahir Manios – Managing Partner & CFO

Great. Thanks, Hadley, and good afternoon, everyone. As Sam noted, I'm here this year to take you through the characteristics of BIP that make it a great utility investment. And we just thought this was quite topical given everything that's happening in the market these days and all the volatility we're seeing.

To set the stage, we believe there's three key attributes that make BIP a must-own utility. The first being the strength and stability of our cash flow streams; the second attribute being our ability to generate outsized growth compared to many peers of ours in the space; and finally, when it comes down to valuations, we believe BIP stacks up very well on a relative basis.

Starting off, I wanted to speak about the high quality of cash flows that we have in the business today. To depict this in more detail, I'll break this down into four specific areas, the first being the strength and resilience or stability of our cash flows; the second, I'll discuss the attractive margin profile and strong cash conversion ratios that we have in the business today; third being the diversification that we have, which is something that's extremely hard to duplicate; and finally, our recession-resistant attributes, a topic that's top of mind for obvious reasons to many investors these days.

Let's first look at the stability and resiliency of our cash flows. The low volatility in our underlying results stems from the fact that 95% of our cash flows are either contracted or regulated. We operate regulated businesses in five different continents, invest in businesses with very attractive regulatory frameworks and all of that with very well-established regulators. These are in great countries like the U.K., the U.S., Australia and Brazil. We also have long-term contracts in place. It's important to note that we're generally operating very critical infrastructure that our customers need in order to get their goods to their end user. Our customers are looking to reduce volatility in their cost structures. They're looking to manage their supply of goods to the best of their abilities. And most importantly, they want to contract capacity that they need for their business to use it when they need it. As such, we have long-term duration contracts in-place with these customers, and our average duration today is about nine years across the business. These contracts are with very solid counterparties. 85% of our contracts or contracted volumes today are with investment-grade entities.

And then, as far as our margins and cash conversion ratios go, both of these metrics have been pretty strong over the years. Our margins today across the business are about 55%, and that's trending higher into 2020. This profile is attractive across the four sectors that we invest in for two key reasons, the first being the fact that our costs are predominantly fixed in nature, so most of the top line growth that we see in the business flows right to the bottom line; and the second being the fact that we're generally operating capital intensive businesses that require significant upfront capital to either build or replace and, as such, these businesses typically demand higher margins.

Touching also on a topic that we introduced at this event a few years ago, our unlevered cash conversion ratios in the business are very strong. Cash conversion ratio measures the amount of EBITDA that is available for debt servicing and for distributions to our equity holders after we funded our maintenance capex obligations. Today, our cash conversion ratio is strong, as I noted. It's at 87%. And just like our margins, that's trending higher going into 2020.

Next up, one of the hallmarks of Brookfield Infrastructure's stability is the diversification that we have in our cash flows.

First, we're diversified by sector. Pro-forma the new transactions that Sam alluded to earlier, we are growing our presence in the data infrastructure segment. And the increased weighting we have towards our energy business has meant that we're more diversified today than we've ever been before.

It's also important to note that within these four core infrastructure segments that we invest in, we're operating 10 very large operating groups. These are all operating groups that have grown materially over the years and in their own right, have become very large businesses over the years.

We're also diversified by region. In the past two years, a disproportionate amount of our investments have been made in North America, which has grown our cash flows materially in that region. This has rounded out our business quite nicely from a geographic perspective. Today, this is the highest allocation we've ever had to North America since 2009 when we completed the Babcock & Brown privatization. And then we also have great balance, as you can see from the slide, in the other continents that we invest in.

And then finally, I wanted to touch on our recession-resistant characteristics. As I noted before for obvious reasons, this has become a topic that's one of the most frequent questions that we're getting from investors these days to address. We think, for the most part, our business is pretty recession-proof. This slide provides a breakdown of our cash flows to illustrate how much of our cash flows are subject to volume risk. As you can see from the slide, our exposure is largely limited to our transport segment as highlighted by the grey portion of that bar. That's because it's mostly due to the regulated and contracted nature of our business that I touched on earlier. Specifically, in our utilities segment, our cash flows are almost fully insulated from changes in utilization rates as we earn a regulated return on our rate base rather than getting paid on actual usage.

In our energy and data segments, over 90% of our cash flows or volumes are contracted either through take-or-pay or capacity-based arrangements.

So then let's look at the transport segment in a bit more detail, just because I realized in the previous slide, it sort of overstates the potential impact to our results, should there be a recession on the horizon. Using annualized results for the first six months of the year, this segment accounts for about 30% of our FFO or roughly $500 million.

There are two components of that FFO that I wanted to focus on in order to explain our exposure to a possible recession. First, 40% of our transport cash flows are what we would refer to as volume or rate-agnostic, meaning, these are cash flows that are underpinned by take-or-pay contracts, minimum volume guarantees or based on availability-based regulatory frameworks. As such, we don't believe that a material amount of that FFO is at risk.

The second component relates to the fact that 40% of our transport FFO is generated in Brazil. As many of you know, that's a country that's slowly recovering out of one of the worst recessions it's faced in a few decades. And we strongly believe that the worst is behind us in that country. So just when you go through the math, and as you can see from the slide, roughly 5% of our total FFO is perhaps recession-sensitive. So even if you were to hair cut that by 50%, let's say, which would be a very, very extreme thing to do, but just while we're having fun with numbers here and to give you a sense of magnitude, you're talking about less than 3% of our total FFO that could be at risk if a recession was to happen.

So with that, I'll move onto the second reason and why we think BIP is a great utility investment. And it focuses on the higher amount of growth that's embedded in our existing businesses, which is much higher than a traditional utility company. Many investors are familiar with this slide. It encapsulates, or tries to project, the long-term trajectory that we have for our organic FFO per unit growth that we can generate in the business year in, year out. We continue to believe that over the long term, our business should generate annual growth of 6% to 9% without the need to inject further capital into these businesses. The most material component comes from inflation indexation, where approximately 75% of our EBITDA is inflation-linked. Based on the geographical split that we have in the business today, we can achieve average inflation of around 3% a year, and that should drive about 3% to 4% growth in our FFO per unit each year.

The second box relates to the surplus capacity that we have across our various networks, where we can push out additional volumes through these networks without having to spend the capital to expand these networks.

And lastly, we typically retain about 15% to 20% of our FFO each year, which we reinvest back into the businesses at attractive going in FFO yields and that can typically grow our results by 2% to 3% per year.

In a few slides, I'll come back and demonstrate how we actually expect to exceed these long-term targets in the near future. So, how have we done on our organic growth over the years? As you can see from the slide, we have grown our cash flows by about 6% on average, just from the first two buckets that I alluded to on the previous slide. As a reminder, this growth was generated from first, having inflation-linked cash flows, which contributed about 4% of that 6% growth that we generated. And second, the fact that we had more volumes that have gone through our systems and that's contributed about 2% to our overall growth rate. In addition to inflation and volume upside, we also have that unique ability to reinvest a meaningful amount of capital into our existing businesses at very attractive risk-adjusted returns.

Each year, we make a capital allocation decision to allocate about, as I mentioned before, 15% to 20% of our FFO, which we retain in the business, and we use that to fund hundreds of smaller, very low-risk, recurring projects that our businesses are able to predictively source year in, year out.

These investments have become, as you can see from the slide, larger over the years as our business has grown. On average, we're now typically investing about $400 million into our businesses each year.

These projects are typically financed with 50% project level debt and that leaves us with about $200 million a year of equity that we need to fund, which we do so from cash flows that we generate and retain in the business. On top of these recurring projects, we also execute larger-scale expansions from time to time. These projects are a bit lumpier in nature but are very logical extensions of our existing networks. Returns for these kind of projects are at the high end, typically, of our targeted range. And we have a great track record of completing them on scope, time and budget.

Here on the slide, I've highlighted four expansions that are currently underway, which I won't go through in much detail. I'll note though that these expansions are expected to be fully commissioned in the next 12 to 36 months and should help drive further growth in our cash flows over and beyond the long-term target range that I alluded to a few slides ago.

So, we're definitely very excited about the outlook for our existing business over the next few years.

That leads me to the third and final component of our utilities investment highlight story.

On top of the various attributes I just walked through, we believe BIP is a compelling investment also from a valuation perspective, as we're trading at an attractive level relative to how we've traded historically, and also, if you compared us to many of our peers in the market. Firstly, I wanted to compare the entry point today on our stock, compared to how we've traded in the recent years.

A common metric that investors are focused on is our price-to-AFFO, which today sits at about 16x. And that's a couple of turns lower than what it was even just a couple of years ago.

We think this is a quite compelling because we're operating in a pretty attractive backdrop of lower-for-longer interest rates, in addition to the fact that our business has gotten better over the years. We think we're better because we have a much more robust organic growth engine compared to even two years ago, and we're also much more mature today than we were a couple of years ago. If you then compare us to our peers, and again, using AFFO here as a proxy to earnings, for many reasons that I have touched on at this event a few years ago, that I won't repeat again. We trade almost four turns lower than a traditional North American utility company. We're also trading five turns lower if you looked at us on an

EV-to-EBITDA basis. Look, while we acknowledge that not all aspects of our business are as comparable to a fully regulated North American utility, we feel that our diversification and inflation-linked cash flows alone, more than offsets these differences.

Fundamentally, we believe that these factors alone should lead to a closing of this valuation gap in the future. On top of that, we believe that we should even be trading at a premium to these utility valuations, as our growth profile truly sets us apart. Our growth, as I noted earlier, is unique. Because we have a number of businesses with surplus capacity, and we have the opportunity to grow our cash flows without being capped by regulated returns. So, pulling all of this together, if you bought BIP today at its current levels, it provides investors with a solid yield, which is around 4.2% based on our current dividend.

This yield is even higher if you were to forecast for a dividend, which we typically announce in February of each year. And that compares quite nicely to the average 3.2% that you would get by investing in an average North American utility.

It's not just this attractive yield that you're going to get by buying the stock today, you're also buying into a proven growth engine that's consistently delivered strong and highly visible cash flow growth. Over the past five years, we've increased our distribution in the range of 7% to 9%, which is much higher than the average of 4% that was delivered by the comparable group.

And finally, in addition to the cheaper multiples, higher yield and above-average growth, you also get best-in-class diversification, both by sector and by geography. We believe diversification is the best protection an investor can get when making an investment decision because you can never fully predict regulatory, political or economic risks around the world.

Before I wrap up my comments today, we thought we'd leave you with one word as a takeaway that we think most adequately reflects the security and growth characteristics of BIP. We thought long and hard about this word, and it was a challenge to come up with one word that describes a business like this.

Unfortunately, we couldn't find the word in the dictionary. So, we had to come up with one on our own. Grow-tility. Hope you like it. Thanks for your attention this afternoon. I'll pass it on to Sam.

Sam Pollock – Managing Partner & CEO

Well, clearly you like that word. We got an ovation over it. All right. Okay. So, we're coming to the end. But before we finish off, we wanted to take a few moments and talk about our plans to make Brookfield Infrastructure available to more investors. And the reason this was an issue that we felt we should address because we have outperformed our peers over many years. We have been recognized as a leading infrastructure business, and we have always been frustrated when we have come across many investors who are prohibited from owning our units because it's a partnership. So, with that, I would like to announce, and am pleased to announce, that we intend to launch Brookfield Infrastructure Corporation. It's our plan to effectively split our units so that investors will have the option of owning either a partnership unit, like they do now, or a common stock. But from a value perspective, the two securities will be economically equivalent to one another.

So, let me get into a few details here. I have to start with an apology because I'm going to abuse you with acronyms. And I know when it comes to Brookfield, we already inundate you with acronyms. But I'm going to use BIPC for the corporation and obviously BIP units for the partnership. So, I'm just going to apologize right now.

It's our current expectation that for every holder of a BIP unit, you'll receive one share of BIPC for every nine units that you hold of BIP. And the reason we're targeting approximately $2 billion of market cap for BIPC, is that our goal is to provide this split to you on a tax-free basis. As a result, the ultimate number of

shares you get may change, depending on the trading price of BIP units at the time we do the spinout. So, the number of shares might slightly change over time.

But as I said, the most important take away from that is the fact that this will be a tax-free split for both Canadian and U.S. unitholders.

The other thing you should know is that BIPC will be listed and traded on the New York and Toronto Stock Exchanges. And for people who hold these BIPC shares, you will not have to file K-1s, and you'll receive dividends like other corporations. For people who hold the BIP units, you'll continue to get your K-1s. And if all goes according to plan, we should hopefully have this transaction done by March of 2020.

As I mentioned a few seconds ago, BIPC shares and BIP units will have the exact same economics. The two entities will have identical distributions and holders of BIPC will have the ability to exchange their shares at any time into BIP units. The way I think of the relationship between the two entities is very much like the BPY REITs and BPY units that many of you may hold today. Or for some who are familiar with some exchangeables, and these are often issued as part of cross-border merger transactions when they relate to a Canadian company. It'll be very similar to how those operate as well.

So, let me start by talking about some of the highlights over the next two slides. First, we think this initiative should expand our investor base, broaden the index inclusion that we'll be eligible for. And for some unitholders, it will provide tax advantages, and in particular, simplified tax reporting.

I'll go in detail on those. The first one is on our investor base. We appreciate that this is not an exact science. But, based on our research, we believe that there are significant pools of capital today that cannot invest in Brookfield Infrastructure Partners and that amount of capital is actually quite a bit larger compared to the amount of people who can invest in BIP. And it probably runs into the trillions of dollars. So, we think this will open up a very big universe of investors for the company.

You may be asking, why is it that they can't invest? It's really simple. Some just have a prohibition of investing in partnerships and some people just have a stronger aversion to K-1s. And so those two factors alone are why we thought this made sense. From an index perspective, and I think everyone can appreciate that as passive ones grow in importance, this is something that we obviously trying to accommodate as much as possible. Today, we are fortunate to be eligible for two indices. One is the S&P/TSX Composite Index and the other one, because of our scale, is the S&P/TSX 60 index. As a result of this transaction, BIPC should be eligible for the Russell Indices, as well as the MSCI Indices. So, that's all positive and moving us forward as far as our eligibility for those pools of capital.

And then the last thing is, just coming back to the taxes. I know there's a lot of U.S. investors in the room here. For U.S. investors, the tax rate on distributions, if you hold a BIPC share versus a BIP unit, it's pretty meaningful. The tax rate drops from about 24% from 41%, and so we think that will be very attractive for all of you. And obviously, you'll have the benefit of that simpler tax reporting I mentioned earlier.

This next slide depicts, on a holistic basis, what Brookfield Infrastructure would look like. And the main takeaway here is that the aggregate market capitalization of the company is really unaffected by the introduction of BIPC. So, the scale and the size of business really isn't changing at all. And what we thought we'd do is, we figured there are going to be lots of questions about this and a lot of them will be the same. So, we anticipated what some of your questions might be, and we'll answer them right now.

The first one is, why didn't you implement a full conversion of the partnership into a C-Corp? And that's a great question because the reality is, we thought long and hard about whether or not we should do that, and it was the first thing that we did. But we decided that there were many advantages with our current structure and that we didn't want to give those up. Some of those advantages include the fact that we issue a number of preferred shares, and we can issue preferred shares on a much lower cost basis being a limited partnership than we can as a Canadian corporation. And the cost differential is around 200 basis

points annually. So that was just a cost perspective. Second, for Canadians, and there's a lot of Canadians in the room., the current after-tax distribution yield for Canadians, because there's a return of capital in the distributions, is lower for owning a corporate share than it is owning a BIP unit share. So, Canadians might, in fact, prefer to hold the units instead. And then lastly, just from a corporate perspective, the partnership structure does allow us to own investments in certain parts of world on a more cost-effective basis.

Then, the next question is, is the BIPC float large enough? And obviously, we'd love it to be larger, but our goal here was to make sure that we gave it to you on a tax-free basis. The market float initially though, you should know, is much larger than what BIP was, in fact, when we spun it out to you. And so, we think it is a good size.

In addition to that, we think a lot of investors will look at the aggregate size of the corporation when making decision about suitability of it. And in addition to that, it is our intention to grow the scale of BIPC over time through equity issuances, as well as other unit splits. And for people who hold BIPC shares, I'd remind you what I mentioned earlier, you can exchange your BIPC shares into BIP units at any time, and those are obviously very, very liquid.

And then, the last question is, what is the impact on BIP financial statements and metrics? I'd say here first, other than the obvious impact on the per-unit numbers from the unit split, by having more aggregate units and shares outstanding, on a combined basis, there is no impact on FFO, no impact on NAV, market cap, dividends or fees to BAM. So, nothing really changes.

In addition to that, after the introduction of BIPC, there will be no incremental tax consequences for the company, no changes in how we run, or the oversight of, the company and no impact on our credit ratings, and there will just be a very modest admin cost to running the two entities, as well as some modest changes to financial reporting.

So, with that, I'm going to now change gears and conclude with a brief outlook on the business. And what I'd say is, and I think just taking all the things you heard from Bahir and Hadley, the outlook for our company going forward is very strong. Despite concerns that you read about in relation to trade wars or possible recession, as we look at our business, we expect same-store growth on a constant currency basis in our existing businesses to be at, or near, the top end of our long-term target range of about 6% to 9%. So, the business is the same as it has been for the last couple of years, in fact, maybe even better. In addition to that, we have four new investments that I talked about earlier that will be fully contributing to our results in 2020. And the average going-in FFO yield on those investments is around 12%. So those are highly accretive to our business.

Now, on top of that, we also have significant liquidity. So, the engine is not stopping. We're going to continue to look for new opportunities, and we are seeing a lot of interesting opportunities in both the data and energy sectors, and we think we can buy them for good value.

One of the things that gives us confidence with that, and I know Cyrus talked a bit about this, so I'll try to be brief about our franchise since you'll probably hear it again. We have an amazing global investment franchise that has never been stronger. And we have many different tools in our tool kit for how we source great opportunities.

So, we look for contrarian opportunities. We are fortunate to be able to execute one of those this summer with our acquisition of Los Ramones in Mexico, the pipelines. We had done this a couple of years ago when we bought the pipelines in Brazil. We can do carve-out transactions, which are more complex, and so you have to have the skills and operations to be able to affect those types of transactions. And we were able to do that last year with AT&T carve-out transaction on data centers, and we're doing it this year with a carve-out of the towers in India from Reliance Industries.

And then, as Cyrus also pointed out, there are mispriced opportunities in the market. We see them occasionally. These are businesses that, while they may trade fairly for the way they're being run, we typically have business plans where we can drive greater value. Two good examples of that would be Enercare, which we privatized last year, and G&W, which we hope to privatize in the next couple of months. So, all in all, there are many things that we can do to continue to invest for value for our unitholders.

So, our priorities ahead. We're focused on closing the transactions that we secured and working with our management teams that we have in place for each of those businesses to implement the business plans and integrate these businesses into our asset management platform.

Our next priority relates to capital recycling. We do have a goal of sourcing around $1 billion of capital from sales next year. We have been very successful this year. We see no changes in the market, and we're highly confident that we'll be able to get good value for our mature businesses. Lastly, we continue to pursue the investment pipeline.

In summary, I just have a couple of takeaways for you. First, we are going to take advantage of the unprecedented low interest rates that we currently see in the market. But as Hadley, I hope, got the point across, we're not going to change our philosophy or strategy towards how we finance our businesses, and we are going to remain disciplined going forward.

Second, despite the fact that our units have performed well, and we recognize that they have done well this year, we do remain a great investment for investors looking for security and growth in these uncertain times. We are the best Grow-tility stock out there. And then the last, if you know any investors, and this is a plea request from me, if you know any investors who haven't bought BIP because it was a partnership, please tell them that BIPC is on its way.

So with that, thank you and I'd be happy to take any questions and the only thing I would ask is when you ask questions, if you can give us your name and organization.

QUESTIONS AND ANSWERS

Unidentified Investor – I presume when you do the new issue, are you going to face the same problem you faced in terms of limited partnership, and it will be part of a limited partnership. Is that a correct assumption?

Sam Pollock – Managing Partner & CEO

So I think the question, just to make sure I got it right, you are asking if...

Unidentified Investor

BIPC.

Sam Pollock – Managing Partner & CEO

From a tax perspective?

Unidentified Investor

Is that going to be a limited partnership?

Sam Pollock – Managing Partner & CEO

It will effectively, and this may be too complicated to get into right now, but we can take you through later. But just briefly, in effect, yes, we'll be spinning out what, in essence, is a subsidiary that will have various cross-agreements in place with BIP, but it'll be a separately entity that will have separate financial statements. The two will deliver identical distributions, except one will be coming from a corporation. As a result, the income you will get from BIPC will be dividends. And if you still hold the BIP units that is a partnership, and that will give you income based on the K-1.

Unidentified Investor

And were you not forced to create a REIT when you close the large shopping center transaction last year because the investors didn't want to be part of a limited partnership?

Sam Pollock – Managing Partner & CEO

Sorry, I didn't quite understand that.

Unidentified Investor

When you closed the large shopping center...

Sam Pollock – Managing Partner & CEO

Yes. GGP.

Unidentified Investor

Last year, were you not required by the sellers to maintain their position for you to create a REIT for their benefit, as they didn't want to partake in a limited partnership Bermuda-based?

Sam Pollock – Managing Partner & CEO

Okay. So, the background on the GGP transaction was, I think BPY, when it took it up, and I might get some of this wrong, but Bruce can correct me if I'm wrong. We recognize that a number of shareholders of GGP would prefer to have a REIT versus BPY units for some of the reasons we talked about here. We obviously weren't in that position ourselves because we weren't buying anything. But what we took from that example was that BPY REIT was able to access a whole new source of investors, and the two units, the unit and the REIT trade in parallel. So, in fact, it has worked really well. And that's what gave us the confidence to go ahead with this initiative. So we are, in fact, borrowing the experience from that transaction to come up with the transaction I just mentioned.

Hope that answered your question. But you can talk to us afterwards if I didn't quite answer it.

Investor

My name is Robert Zach Hauser of Hauser Investments. I have a couple of questions related to BIP and BIPC. The first is, would this be analogous to owning a mutual fund with individual versus institutional investors, where basically the only difference is the rates that they pay for management and the size of the initial investment, but basically they own everything, that's the same. Is that a good analogy?

Sam Pollock – Managing Partner & CEO

I'm not sure I would describe it as a mutual fund.

Investor

Well, it's not a mutual fund.

Sam Pollock – Managing Partner & CEO

But I think the analogy is the ones I mentioned. The exchangeables that have been around for a long time, where effectively you just have to mirror a security. And you can switch to the other security at any point in time. So, in effect, even though it's a different security, it has all the same attributes.

Investor

Right. The other question is, BIPC will be roughly 1/11 of the number of units BIP. What was the particular determination to make it that size as opposed to a larger or smaller?

Sam Pollock – Managing Partner & CEO

Yes. We felt that we could issue approximately $2 billion of securities on a tax-free basis. So, our goal here was to ensure that this was not a taxable transaction for unitholders. And so, we sized it at that amount.

Investor

So, in other words, if you had issued more, let's say, $3 billion, some of that would have been taxable. Is that your opinion?

Sam Pollock – Managing Partner & CEO

We do have more capacity, but we also wanted to maintain some ability to provide a return on capital for the BIP unitholders as well. So, there was a balancing act in here.

Robert Catellier – CIBC Capital Markets

Rob Catellier from CIBC Capital Markets. Two quick questions. One on the BIPC shares. Once that transaction is affected, you'll have publicly listed corporations or shares as a potential currency. How are you looking at that in terms of using it as a currency in future acquisitions?

Sam Pollock – Managing Partner & CEO

I'd say today, because it's early days, we haven't contemplated anything different than what we would have done in the past, where we have, in fact, used BIP units as a currency. You might recall that when we made our initial bid for Asciano, there was a unit component in that transaction. I think this does give us more flexibility. There is no doubt. I think your question is right. There is a whole host of investors who will be more willing to take common shares than units, and so I think this just makes that much easier.

Robert Catellier – CIBC Capital Markets

Okay. My second question has to do with the utilities. Throughout the presentations today, it's been a lot of commentary about the low-interest rate environment. And what I think I heard was preparing for an eventual downturn. So, I'm wondering how the utilities business fits into that? In other words, what's

your appetite for making new investments in the utilities business under those circumstances, particularly since recently the proportion of utilities in the portfolio was actually going down through a couple of sales, but also through investment in other areas?

Sam Pollock – Managing Partner & CEO

Look, we think utilities are fabulous investments, but you need to buy them for value. We typically try to usually invest in utilities by, in fact, building them. So today, you may know that we're building out a transmission system in Brazil, and this will be a fully contracted regulated business. But we're doing it at cost, and we're not paying a big premium. Where we find you get in trouble with utility acquisitions is paying a big multiple over or a big premium over rate base and then having a regulator come along, after the fact, and changing your allowed return. So, we typically try to make sure we don't do that. We try to buy them at very sensible multiples and look for good entry points, which we've been able to do over the years.

Andrew M. Kuske – Credit Suisse

Just on some quick math. It looks like the current flagship fund is about 50% allocated once you close off some of the transactions, give or take a little bit. So, based on Bruce's comments earlier today, the fundraising cycle looks like it's accelerating. All these things are positive from a broader Brookfield standpoint and from your own deployments have been very good in the last, say, 12 months or so. The capital recycling number that you just gave $1 billion for next year. Is that number a little bit too light? And should we expect to see further acceleration on just capital recycling?

Sam Pollock – Managing Partner & CEO

Well, look, I think the acceleration will naturally take place as more businesses mature from the later funds that we've raised. So, I'd say, part of what we're selling off today are primarily those first investments we made back in 2009, '10, '11 and '12, with fund one. And so, the scale of what we invested back then is reflected in the proceeds that we're generating right now. As I look at the requirements. So, if we have a goal to invest roughly $3 billion to $4 billion over a three-year period in our various funds, that's just over $1 billion a year. Selling roughly $1 billion a year is not far off what we need to do. So, we maybe need to do a little bit more, but it isn't materially different.

Andrew M. Kuske – Credit Suisse

And then just one brief follow up. Is there any change to the whole period, you will have for certain assets? Does it start to truncate a little bit?

Sam Pollock – Managing Partner & CEO

No, it's all depending on each individual situation. So just as a reminder, we tend to sell assets once we've achieved our business plan and de-risked it. But there are situations where we might sell it a bit earlier if someone is prepared to pay us a price, assuming that everything is done. So, if someone is happy to take on all that risk and price as if it's a fully de-risked asset, then obviously we'll sell it.