Brookfield Affiliates 2022 Investor Day - BIP

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Corporate Speakers:

- Samuel Pollock; Brookfield Infrastructure Partners L.P.; Managing Partner & CEO of Brookfield Infrastructure Partners Limited
- David Krant; Brookfield Infrastructure Partners L.P.; CFO of Brookfield Infrastructure Partners Limited & Managing Partner of Infrastructure
- Natalie Hadad; Brookfield Infrastructure Partners L.P.; Managing Director of Brookfield Infrastructure Group

Participants:

- Andrew Kuske; Credit Suisse AG; Analyst
- Robert Hope; Scotiabank Global Banking and Markets; Analyst
- James Small; Willingdon Advisors Ltd.; Analyst
- Cherilyn Radbourne; TD Securities Equity Research; Analyst
- Robert Catellier; CIBC Capital Markets; Analyst
- Naji Baydoun; iA Capital Markets; Analyst

PRESENTATION

Samuel Pollock: Good afternoon, and thank you for attending Brookfield Infrastructure's portion of the Investor Day here, and I'm pleased to welcome those who have joined us virtually as well as all of you in the crowd, or at least those who have stuck around. My name is Sam Pollock, and I'm the Chief Executive Officer of Brookfield Infrastructure Partners. And presenting with me today is our Chief Financial Officer, David Krant; and the Managing Director in our investment team, Natalie Hadad.

For our presentation today, I'm going to review our accomplishments over the past 12 months as well as touch on our outlook for the year ahead. And then I'm going to ask David and Natalie to come up, and they're going to delve into a little bit more detail, the tailwinds that are behind both our organic growth and our capital deployment.

So first of all, 2022 is shaping up to be another successful year for Brookfield Infrastructure. Our success is exemplified by basically delivering on three strategic priorities. The first is generating record results, the second is executing on our asset rotation strategy, and the third is continuing to de-risk our business by maintaining a strong balance sheet.

Now, I'll start with our results. Now we're on track, as I said, to deliver record financial results. So far this year, our FFO is up 11% over the prior year. But if you adjust for a one-time item related to a weather event in our gas storage business back in 2021, our business is actually tracking 20% higher year-over-year. Now half of that increase is

related to the outsized organic growth going on in our business today. That is an amount that is above our usual 6% to 9% target level. And the outperformance has occurred because our business is uniquely positioned to benefit from higher inflation.

Now, the other half of our growth is attributed to the contribution from last year's outsized capital deployment, and that includes the privatization of Inter Pipeline. I'm happy to say that Inter Pipeline is now fully integrated into our business, and the business itself is exceeding our expectations. A lot of it has to do with the fact that we're in the midst of higher commodity prices.

Now, 2022 has also been an incredibly active year with regards to new investments and asset sales. Now, of $2.8 billion of secured capital deployment, we have nearly doubled our annual new investments target. We have also already secured $900 million of proceeds from asset sales, and we expect to generate another $1.5 billion through three ongoing sales processes.

Now, our asset rotation strategy has accomplished a number of objectives for us. The first one is we've redeployed capital from mature businesses that had pretty minimal organic growth in them to platforms that have significant outsized growth in front of them. Second, we exited a couple of GDP-sensitive businesses and we redeployed the proceeds into highly contracted data and utility businesses.

Now the $2.8 billion I was referring to was invested across five high-quality businesses. In Australia, in fact, we closed three transactions during the year, leveraging our strong local presence. The largest investment was the privatization of a regulated utility called AusNet. It consists of a large-scale platform of regulated transmission and distribution networks in the state of Victoria. The business is extremely well positioned to participate in the decarbonization of Victoria's economy, and we expect that will be approximately $12 billion of contracted and regulated asset base to almost triple over the next 25 years.

The other two investments were Intellihub and Uniti, and these are high-quality businesses in the smart metering and fiber-to-the-home sectors.

The other region we were active in was Europe. The first transaction to close will be the privatization of a U.K. company that is a leading global provider of home services. Not surprisingly, it's called HomeServe. We bought this business because we believe it will be highly complementary to our existing U.S. and European residential infrastructure businesses. Now you're going to hear more about our strategy for our residential infrastructure platform from Natalie just a bit later, but suffice it to say that the market opportunity for demand-side decarbonization businesses will be large, and we plan to build an industry leader.

Now the second transaction we secured in Europe is an investment into a marquee German telecom tower portfolio called DFMG. We acquired a 51% stake alongside our partner in a portfolio of 36,000 towers in Deutsche Telekom. Now this business will

generate highly resilient cash flows as it's underpinned by a 30-year inflation-linked take-or-pay contract by Deutsche Telekom.

And then, there’s the transaction that's probably garnered the most attention. Last month, we announced a partnership with Intel Corporation to construct a $30 billion semiconductor foundry in Arizona. As a result of this particular transaction, we will not only significantly add to our capital backlog but we forecast that will actually reach record levels, as this project will more than offset a number of significant projects that we'll be commissioning in 2022, including the Heartland project I mentioned earlier. Now thematically, this investment is an example of how Brookfield can leverage its flexible and large-scale access to capital to structure a transaction where we can participate in the growing trend to onshore critical supply chains.

Now, we've often emphasized that capital recycling is a key component of our full cycle investment strategy. This year, despite some market volatility and rising interest rates, we have successfully divested four mature assets at attractive valuations.

The first one I'll touch on is our U.S. container terminals. In June, we closed the sale of a 49% interest in this business to our existing partner at enterprise value of about $1.9 billion. Over an eight-year hold period, we successfully executed our business plan, which was to grow and diversify the volumes as well as to fully automate the Los Angeles Terminal. This sale resulted in an IRR of 19% during our hold period.

Then in July, we announced that we had reached an agreement to sell a portfolio of 2,400 kilometers of newly-constructed electricity transmission lines in Brazil at an enterprise value of about $1.4 billion. On this particular deal, we earned a 22% return, and we continued to build about 2,900 kilometers of lines that will probably sell down the road.

Also that month, it was obviously a very busy month, we signed an agreement to sell a portfolio of 1,500 telecom towers in New Zealand. Now I'll give you a little background on this particular transaction. In 2019, we bought a 50% stake in a fully integrated telecom operation in New Zealand for about seven times EBITDA. Let's roll forward about three years to this summer, we were able to successfully exit the towers at around a 34 times EBITDA multiple. So what this sale has resulted in is that we've recovered virtually all our capital out of the business and we retain a highly profitable business that continues to own a valuable fiber network, as well as one of the country's leading mobile network operators.

And in addition to those three, in India, we sold a portfolio of roads and EBITDA multiple of just over 14 times and earned a local return of about 13%. Now that transaction, we had just recently completed the expansion of two roads. We packaged them up with an existing portfolio of roads that were mature, and then we sold that portfolio to a group of financial buyers who were attracted to the high-quality asset base.

So the one thing I want to mention is that even with all this activity, we've accomplished all these things while still maintaining strong financial metrics. Now it's always been a

key pillar, and you've heard it with all the other companies, where we maintain a very well-capitalized balance sheet, and today is no different for us as well.

We have strong corporate liquidity of about $3 billion. We have a solid investment grade at BBB+. Our payout ratio is within our long-term target range of 60% to 70%. We have FFO hedging in place for the next 24 months that would reduce any headwinds related to FX. And virtually all our debt is fixed rate, and we have no significant near-term maturities.

So before we take a look at our prospects for the year ahead, let's just take a little bit of a step back. First off, our mission is very clear. It is to provide sustainable per unit cash flow growth over the long term, and the purpose of that is to support a 5% to 9% annual distribution growth target.

As you can see on this chart, we're very proud of our track record of delivering on this compounded FFO per unit growth, which has been about 11% over the past 10 years, and this is through various market cycles as well as through COVID. As a result of this steady, consistent growth, we've also provided compounded annual distribution growth to our investors of about 9% over that same period. As it relates to this year, our forecasted results for 2022 are roughly 11% ahead of last year. But again, as I mentioned earlier, on an adjusted basis, reflecting that one-time item in 2021, we're expected to exceed last year by about 16%.

The main drivers of our performance, particularly for the year ahead, are simple and can be distilled in two components: organic growth and capital deployment. Success with organic growth is measured in two principal ways. Are we accretively capturing inflation and increasing our margins in our business? And are we successfully executing on our capital backlog and replenishing it?

Now with regards to capital deployment, we are successful if we can continue to invest at our target levels of about $1.5 billion a year, and probably more important that we're investing that capital at our targeted returns of 12% to 15%, but also in doing that, ensuring that we have appropriate downside protection.

So your question is, how are we doing? Well, from an organic growth perspective, the components are exceeding our expectations. If we look at capturing inflation, so far during 2022, elevated inflation has contributed 5% to 6% increase to our FFO per unit, and that's relative to a normal target of 2% to 3%. As we look forward, we expect inflationary pressures to persist from factors such as the cost of decarbonization as well as aging demographics.

Now looking at our backlog. For the balance of this year, we're focused on the completion of our large-scale projects, including the Heartland Complex, our Brazilian transmission lines, and the commission of those projects will provide high visibility for our organic growth in 2023. Now with the Intel agreement, we have successfully replenished our capital backlog, adding about $4 billion to it that will be invested over a

multi-year construction period. And in addition to that, as we talked about last year, we are continuing to build new platforms, and that will create further opportunities for us to invest in organic projects.

From a new investment perspective, our outlook is equally as strong. For the second year in a row, we have secured two times our annual deployment target. Now you can look at that a different way. We have already locked in next year's capital deployment with HomeServe and DFMG and closing late in Q4 and in Q1 of next year. From a longer-term perspective, our robust deal flow is expected to continue as the favorable economic macroeconomic trends drive an infrastructure super cycle. Now Natalie is going to be up in a second, and she's going to describe some of these trends, which we have dubbed the three Ds.

So I'll conclude my section here by pulling this all together for you, and what it means is that we are well positioned for another strong year in 2023 and beyond. And to that end, we thought we'd give you a little bit of guidance. We believe that we can achieve above our 10-year average, and we look to generate somewhere in the 12% to 15% growth for next year for our FFO.

So let me leave it there. I'll be back up later, and I'll ask David to come up.

David Krant: All right. Thank you, Sam, and good afternoon, everyone. As introduced, my name is David Krant, and I'm the Chief Financial Officer of Brookfield Infrastructure.

Now throughout the day today and actually for the last year, elevated inflation and rising interest rates have dominated news cycles. These economic variables would be headwinds for many companies around the world, but not ours. In fact, over the next few minutes, I'm going to detail why this unique operating environment that we're in today could provide us with some of the most meaningful compounding of organic growth that we've seen in our history.

The confidence in our ability to deliver on the strong organic growth can be summarized by four things. First is inflation. Our business is well positioned to capture it, and it is a positive tailwind for us. Secondly, with respect to higher utilization and expanding our capacity, as Sam said, our backlog is at record levels, which gives us high visibility into the organic growth in the years ahead.

In terms of our asset rotation, this round has provided us with meaningful accretion to the organic growth outlook on the new businesses acquired relative to the ones we have sold. And finally, our ability to deliver on these three key elements of organic growth are enhanced by the largely fixed nature of our interest expense and the high visibility we have into our foreign exchange risk management through our FFO hedging program.

Now the combination of these factors working together within our businesses should result in cash flow growth at the high end of our 6% to 9% target range or better. Now, let's walk through each of these in a bit of detail.

Now, inflation has been elevated for some time now. And the fact that 85% of our businesses are either going to directly capture it or are protected from it is extremely valuable in this environment. With respect to our inflation indexation, we group it into two buckets. The first are those businesses that will directly pass on inflation to end users. That represents nearly three quarters of our EBITDA today. The second bucket are those that operate under a fee-for-service model. These take rising input costs, deliver and transport ultimately to an end user, a higher revenue product, thereby fixing our EBITDA. Combined, as I said, these businesses are extremely powerful in this environment.

Now given how much our business stands to benefit from inflation, let's take a look around the world and see where we've captured it. Now, inflation is rising in pretty much every market we invest in around the world. And when you own a global diversified portfolio of infrastructure assets, it's important to see how meaningful that is. Over the last five years, if we look across the businesses we've owned, inflation has averaged 3% globally.

Now, what we've captured based on inflationary pass-through to date in 2022, we've actually been able to deliver 5% to 6% organic growth, nearly double. And if we look at current trends in the market today, in certain markets, we actually believe we can further capture inflation in the next six to 12 months ahead as we look through future price increases.

Now I say inflation outlooks in certain regions are mixed. But I think regardless, it remains elevated from historical levels across the board. And there are a few trends that have been alluded to throughout the day today that we think could result in at least higher than historical inflation in the medium to long term.

The first two of these trends are decarbonization and de-globalization. Natalie will soon touch on how these are driving our capital deployment, but importantly, these are also inflationary in the markets undergoing these changes. Both will require billions of dollars of new investment and highly skilled labor. Now, as highly skilled labor is in demand and unemployment remains low, this will create inflation in these markets.

The third trend will have a similar impact on inflation, but it's a bit different. It's aging demographics. In the Western economy, we've been going through this for the last decade, as baby boomers have aged and birth rates slowed. The interesting part is that the next decade ahead, China will soon be entering this phase of their growth, with a decline in the working age of their population.

Now China is known as the world's largest exporter and manufacturer of goods, so this will create inflationary pressures in other markets around the world. Now it's obvious that central banks will have this on top of their mind, and we assume that they will be able to control it. But needless to say, it is a driver of long-term economic outlook for us.

Now moving from inflation to the second component, and this is around increasing the size and the scale of our systems today. We can do that through either increasing the utilization on our existing networks. This form of growth can be highly accretive, because additional volumes on our lines or our rail networks can enhance margins significantly because there's little to any investment needed.

The second form of growth in this fashion is capital backlog and the commissioning of new assets into our asset base. As Sam alluded to, we're expecting to meaningfully add two large-scale projects in the coming months, which together could roughly represent about $2 billion of capital into our asset base. At this event last year, I spoke about building platform value. Success in our ability in doing that would be measured through the growth of our capital backlog.

Now despite commissioning nearly $2 billion of capital out of our backlog and into our earnings, we actually believe that we'll be on track to deliver record backlog as we look to the year ahead. In fact, with the signing of the Intel transaction and the capital backlog and platforms that we've acquired through our new investments, we will nearly triple the size of our run rate capital backlog by the end of this year.

Now if I think about the key drivers, as I said, of our growth and in our backlog will be most notably the Intel transaction, which could be the first of several of these types of opportunities. And secondly, it's the impact of our new acquisitions. Now when I look at the businesses we've acquired in the last year that Sam highlighted in his introduction, several of them have significant organic growth. In fact, we expect all of them to be at the mid or high end of our target growth range.

Specifically, at AusNet, as Sam said, we're building out renewable power transmission lines. At Uniti, we acquired a portfolio of 550,000 contracted fiber connections, of which only 150,000 are revenue-generating today. At Intellihub, our metering business, we acquired 1.5 million active meters and an order backlog of contracted growth of another 1.7 million.

And finally, at DFMG, our tower portfolio in Europe, the 36,000 towers also came with an additional 5,200 build-to-suit towers contracted by Deutsche Telekom over the next five years. So pulling those all together, that's an added $300 million of contracted, highly visible growth that we have in the next three years. When I compare that to the assets or the backlog, I should say, of the assets that we sold, it pales in comparison. It was about $10 million that we had earmarked for those investments.

And this transitions nicely to that third element of visibility that we have, and that's around our asset rotation strategy. There are two ways asset rotation can be accretive and also seen in our results. The first are immediate impacts, going in yields. We exited our businesses on an average rate of about 6% from an FFO yield perspective, and our going-in yield average is about 7%, modest accretion from day one.

The more meaningful element of this round of asset rotation is in the form of that outsized organic growth opportunity. Through the backlog, we've acquired full inflation pass-through. We believe that we can increase the organic growth on the businesses acquired by three times of the level we sold. In fact, those three platforms that we highlighted, including HomeServe, Intellihub and Uniti, we could actually double in the next five years alone.

So those are some visibility into the, I'd say, the revenue or EBITDA generating activities that we have as key components of our organic growth. Our ability to deliver that to the bottom line will be impacted by rising interest rates and foreign exchange, both of which we have well under control.

I'll start with interest rates. As you've heard throughout the day, our principles of Brookfield Infrastructure are the same as of the other listed affiliates. We raise our debt at the asset level, we look to secure it in local currencies to prevent mismatch, we seek duration that's in line with our contract life, the project life for the regulatory framework, and most importantly, we fix the rates on our debt where it's available. Now during this historically low period of interest rates, we have been active. We've refinanced a significant amount of our maturing debt to lock in those low levels.

What that doesn't mean is that all of the debt on our balance sheet has been issued at these historically low levels. And in fact, if I look at the few years ahead of us, in fact the next 2.5, the average interest rate implied on the debt that's maturing is 6%. But if you think back to our principles, we look for fixed rates and we do it for a long-term basis, meaning we'd likely raise this debt that's maturing in the next few years, 5, 10, 15 years ago in some instances when rates were much more akin to normal levels.

When I look at where current interest rates are for the types and risk profile of assets that we own today and what we're actually executing on in the market today, using the 10-year treasury of, last I checked, 4% approximately and the implied spread on an investment-grade BBB bond of about another 200 basis points, the all-in cost of debt for risk assets of our type is about 6%.

What that means is I look ahead to the years to come, the refinancing activities that we will be doing will not have a meaningful impact on the P&L or our interest expense included therein.

The other element of rising rates is obviously if you have floating rate exposure. In this regard, we have very little. In fact, 90% of our debt issued outside of Brazil is fixed, very little floating. We exclude Brazil from this analysis for one main reason. It's that their central bank is near the end, if not at the end of their tightening cycle, which is quite different than other parts of the world that are in the midst of their rate hiking process. So when I'm trying to quantify the impact of rising rates on our business, that's not one of the markets that we think has that room to run.

To quantify that exact impact that I alluded to, it's quite simple. We take our total proportion of borrowings, that's at Brookfield Infrastructure share, we removed the debt that is fixed or has been issued in Brazil. That leaves us with approximately $1.8 billion of floating rate debt on our balance sheet today. Now the implied interest rate on that debt for the first half of 2022 and our results was about 4.25%.

As I said, the rate implicit in 2023 and actually in the current levels, it's about 6%, meaning there's about 175 basis points of further increases that could potentially come or that are currently priced in. What that means from an FFO perspective for our business is that there's a potential impact of about $30 million over the coming 18 months. To put that into context, that represents approximately 1% of our 2023 forecasted funds from operations.

A similar exercise is important with respect to foreign exchange risk. In the last few months, the U.S. dollar has strengthened significantly pretty much against every currency in the world. Now we have always employed a very active FFO hedging program. In fact, the next 24 months of our foreign-denominated FFO is fully hedged. When I take a step back and look at what that means for our business, 82% of our FFO this year and next year are either denominated in USD naturally or are hedged back to USD at rates of which we have locked in.

To determine the impact on our business of those locked in rates when I compare those to the 2022 levels, they are fairly consistent with what we have in our P&L today. In fact, rates are on average about 1.5% below those current levels. When I look at the percentage of our businesses that are denominated in those currencies, which is just over half, there's about a 75 basis point increase or impact from lower foreign exchange in the next 24 months. Both of these, we feel we are extremely well positioned to manage, and hence, the confidence in our ability to deliver on our organic growth in this environment.

We have tried to summarize how we've been performing in this current environment relative to our long-term targets. The first three components that I alluded to are those EBITDA driving generators. With respect to inflation, this is positive for our business, and we are twice the level we have historically. With respect to our capacity or our backlog, we now have visibility into $6 billion of CapEx that we expect to complete over the next three years. And finally, with respect to asset rotation, this round has been significant both in terms of its size but also in the outlook and accretion it will give us in the organic growth profile of the businesses that we've acquired.

Now, our ability to deliver that to you and our unitholders will not be impacted by the rising rate environment that we're in and the foreign exchange volatility that we have experienced.

So with that, I'd like to thank everyone for the time this afternoon. And I'll now turn it over to Natalie.

Natalie Hadad: Well, thank you, David. And hello, everyone. My name is Natalie Hadad, and I am the Managing Director focused on investment activities in our Brookfield Infrastructure Group.

I am very excited to discuss the three Ds, which is a term we coined here at Brookfield Infrastructure, as we think about our deployment teams and which stands for digitalization, decarbonization and deglobalization. Individually, each of these macroeconomic investment themes are driving significant capital deployment opportunities for us, and we expect this trend to continue in the foreseeable future.

So first off, I will cover digitalization, which refers to the infrastructure investment opportunities that are derived from the exponential increase in data consumption. Data is still the world's fastest-growing commodity. For every minute we spend on the Internet, we send 200 million e-mails, 70 million messages and generate over 500 hours of YouTube content. So based on current usage patterns, the amount of data that is generated globally is expected to double in the next 18 months, and this pace is only going to continue to accelerate. All this data needs to be transported, processed and stored. And in order to support the growth, incremental investments are required in each one of these segments.

Historically, these investments were funded by traditional telecom operators. But given the increasing demand placed on the capital, they're now doing two things. One, they are increasing their reliance on neutral host shared infrastructure or outsourcing; and two, they are seeking new funding partners in order to alleviate the demands or the pressures on their balance sheet. And both of these trends create significant tailwinds for well-capitalized investors with deep sector knowledge that can deploy billions of dollars worth of capital in the medium to long term and capture these opportunities.

So, we are already seeing the market opportunity playing out across three verticals: Fiber networks, wireless networks and data centers. With fiber, we are witnessing a once in a 100-year investment upgrade cycle to replace legacy copper networks with fiber-to-the-home infrastructure for new and existing residential developments. Most of our growth to date has been in OECD countries such as France, U.K. and the U.S., where average residential broadband consumption is approaching upwards of 500 gigabytes per month.

In wireless infrastructure, the mobile network operators, or MNOs, need to make significant investments in order to densify their networks and make them 5G ready. We expect to continue to see the MNOs enter into strategic partnerships to free up capital by divesting critical infrastructure that currently sits under balance sheets.

And lastly, the data center sector is experiencing significant tailwinds from the migration to cloud computing. When combined with the expected increase in data demand, it is estimated that 10,000 megawatts of new data center capacity is required in the next decade.

And now, I'd like to focus on wireless networks. So outside of the U.S., the tower market remains highly fragmented, with a higher proportion of towers still owned by the MNOs. We anticipate that further tower divestitures will take place in the coming years as these MNOs look for alternative funding sources. As one of the largest global independent tower operators with significant operating expertise, we are very well positioned as a trusted partner to manage this critical infrastructure on behalf of the MNOs.

And a great example is our recent investment in DFMG, which Sam alluded to earlier. And as part of this transaction, we acquired a majority interest in a portfolio of 36,000 towers in Germany from Deutsche Telekom, who's now going to use those proceeds and redirect them into other parts of their business. From our perspective, this represents a fantastic opportunity to invest in a tower portfolio of scale with attractive long-term contracted cash flows and with a very robust organic growth outlook.

Germany is Europe's largest country and is a fast-growing tower market, given that it lacks in national digitalization when compared to other larger economies. In addition to the organic tower build-out, DFMG is very well positioned to participate in further tower consolidation in Europe and drive outsized returns.

So the second theme is one that we introduced in our last earnings call, and it's decarbonization. We talked about how the decarbonization of the global economy will be a multi-decade initiative requiring substantial investments. To date, attention has focused on the industries and companies that are responsible or directly responsible for the emissions or supply side decarbonization.

It is our view that the fuels used today to power the global economy will either transition to net zero or will be runoff, responsibly and safely. Both of these paths create significant and compelling investment opportunities at an appropriate value-based entry point and conservative forecasts.

Now, a second aspect of decarbonization are the investment opportunities created by consumer preferences for energy-efficient solutions, or demand side decarbonization. The opportunities are driven by consumer preferences for energy-efficient solutions that can help them manage their carbon footprints, meet legislated net zero targets, and thus create a market opportunity for infrastructure capital to alleviate the high upfront cost of installation and the ongoing complexity of servicing and maintenance.

We will now share a short video in which a few of my colleagues will further demonstrate the value that we see in demand-side decarbonization as a key capital deployment driver for us.

Video Speaker, Marija Skramic: Decarbonization is effectively all about reducing and eventually removing CO2 from the atmosphere. Countries worldwide have pledged publicly targets to reach carbon neutrality by 2050. It’s effectively a rewiring of the entire energy system.

Video Speaker, Matthew Grimes: Governments have been pursuing net zero objectives and various decarbonization goals in a number of spaces. Historically, the focus has really been around supply-side decarbonizations through large-scale wind, solar, hydro, and other assets.

Video Speaker, Marija Skramic: Something that is often overlooked is the power of demand-side decarbonization, which is when consumers and businesses can look at their energy consumption and they can reduce it primarily in one of two ways.
Either they switch to a greener source, so a heat pump or a solar PV panel to power their energy use, or they can look at installing a smart meter, which helps them optimize their energy use.

Video Speaker, Matthew Grimes: Across an increasing number of markets, we're seeing smart meter rollouts mandated. In addition to providing automated meter-reading services, smart meters also provide real-time supply and demand data to both households and utilities.
This data is an enabler of more efficient coordination between the grid and households, allowing us to reduce the overall emissions.

Video Speaker, Marija Skrami: What I'm excited about is we've invested in a number of companies that are really focused on the digital proposition, and they've taken technology to overcome the flaws and the inefficiencies that are in this industry. We have the scale and the reach thanks to Enercare, Service Experts, Metergy, BUUK, Intellihub, and now HomeServe.

Video Speaker, Matthew Grimes: Brookfield is leveraging the rental product and our financing technology from Enercare across our other residential infrastructure businesses in Europe and North America. This is the benefit of lowering the cost to consumers whilst providing us with attractive, robust cash flows. What this addresses is the two major hurdles of demand-side decarbonization, which is the upfront cost of installation and the ongoing complexity of servicing and maintenance.

Video Speaker, Marija Skrami: Brookfield invests in all parts of the energy value chain. We have teams that are focused on forecasting power prices. We have operating companies that are generating renewable energy across the world. We have distribution lines. We have residential infrastructure businesses installing heat pumps and solar PV panels. We have smart metering businesses. The list really does go on, and we seem to touch all aspects of not just demand-side decarbonization but supply-side decarbonization as well, and Brookfield is perfectly positioned for this energy transition.

Natalie Hadad: All right. So as Marija and Matt touched on in the video, we are building residential infrastructure platforms to provide products and services in support of demand-side decarbonization initiatives. We initiated our North American operations back in 2018 with an investment in Enercare, a business that at the time provided in-home infrastructure to one million households under a long-term rental model.

Fast forward to 2022, we have expanded our franchise significantly under a number of bolt-on acquisitions that increased geographic presence as well as expanded the customer service offering, which now includes a growing submetering business, solar products, as well as solutions to electrify the home.

Furthermore, with the acquisition of HomeServe, we will further complement our rental offering by providing homeowners with recurring subscription-based repair policies for residential infrastructure products. HomeServe's North American operations are highly complementary with very limited overlap, providing access to close to five million membership customers and over 1,000 utility partnerships.

After scaling our operations in North America, we turn to Europe. And we began building a European residential infrastructure platform with two small-scale high-growth investments in Thermondo and BOXT, which provided a presence in Germany and the U.K.

European utilities are very focused on reducing Scope 3 emissions, with individual households expected to play a very key role. However, green home solutions are expensive and complex, leading to a higher propensity to rent and ensure in-home infrastructure versus a plain vanilla ownership model. These decarbonization tailwinds are creating significant organic growth opportunities for us.

The best example is a pilot project we launched in Germany to offer heat pumps as a rental product in order to mitigate the high upfront cost of ownership that our customers would have otherwise born. Demand has exceeded expectations, and we expect to continue to benefit from Germany's shift away from conventional gas-only boilers.

Now despite our recent success in growing our operations, scaling our platform in a meaningful way or to a size big enough that would have had a material impact on our results would have taken a significant amount of time. But with the addition of HomeServe's well-established European platform, we will immediately accelerate the growth in Europe and increase our footprint to close to four million households.

The last thing that I will touch on today is the effect of the globalization, which is creating significant opportunities for investment across three different verticals. First, the current geopolitical environment has spotlighted the importance of becoming energy independent. Natural gas and LNG will continue to be leading transition fuels in the move to net zero, and they will also play a very key role in providing global energy security. We've seen this benefit in our LNG export facilities firsthand. We've added a sixth liquefaction train at Sabine Pass that has helped us keep up with increasing demand while being underpinned by a long-term offtake agreement.

Second, while the peak of the supply chain disruption is likely behind us, transportation networks and assets will continue to require significant capital investments in order to gain resiliency and better address long-term rising demand, add capacity in order to clear

up bottlenecks, as well as tweak traditional supply chains, given or to take into account geopolitical considerations.

Lastly, one specific industry that is at the crossroads of both supply chain and geopolitical disruption is the semiconductor industry, and we've touched on this earlier today. We've seen the reshoring of critical industries take on a sense of urgency, and we expect that this trend will generate significant deal flow for us. And with that, I would like to tell you a little more about the semiconductor theme.

Corporations and governments have realized that essential and highly-strategic manufacturing processes need to be re-shored. And in recognition of this need, governments in the U.S. and Europe have announced programs totaling over $100 billion in support of the onshoring of the manufacturing of semiconductors. In any case, there is still room for private capital to partner with industry, given that the globalization projects are very large scale. And a great example of this is our investment in Intel's semiconductor fabrication facility, which is currently under construction.

The total project cost is expected to be around $30 billion, and we will invest $15 billion over the construction period for a 49% interest in the facility. Given the quality of the deal parameters or the investment parameters, the majority of our capital commitment has been sourced from binding non-recourse debt financing, while the majority of our equity requirement will be deployed closer to the operational stage of the project.

This investment is structured with typical deal protections that will allow us to achieve infrastructure risk-adjusted returns, and we draw parallels to other data investments such as hyperscale data centers that are underpinned by long-term contracts with creditworthy counterparties where we're not exposed to technological risk. In this instance, we view Intel as a best-in-class creditworthy counterparty and a market-leading partner. We anticipate this reshoring trend will lead to other large-scale opportunities, whether with Intel or other industrial players.

And lastly, I would like to bring this all back to what it means for Brookfield Infrastructure. Over the past two years, we have seen a significant level of investment activity well above our annual investment target of $1.5 billion. With $2.8 billion of new investments secured so far this year, we have nearly doubled our investment goal for the year and have nearly secured our deployment target for 2023.

Looking forward, the three Ds that we've discussed today are going to require trillions of dollars of capital globally, and Brookfield is very well positioned to capture these opportunities given our large-scale and flexible capital, our global footprint with boots on the ground and our deep operating expertise.

And with that, I will pass it over to Sam for concluding remarks.

Samuel Pollock: Thank you, Natalie.

I know you're all hoping to go out there for drinks, so we'll keep this short. I hope that was helpful, and I just want to make sure you got a couple of takeaways from that presentation, and it's actually pretty simple.

First of all, we want you to think of BIP as being a very resilient company, and that really comes down to our highly-contracted cash flows as well as our strong balance sheet. The second thing we want you to take away is the fact that we have exceptionally strong growth in front of us, and a lot of that has to do with the tailwinds behind our organic growth as well as the secular trends that are providing tremendous opportunities to deploy capital in the coming years. And if you put those two together, it's the reason we believe that Brookfield Infrastructure is still the one and only grow-tility.

So I'll end it there, and I'd be happy to take any questions.

QUESTIONS AND ANSWERS

Andrew Kuske: Andrew Kuske, Credit Suisse.

Sam, I love the alliteration on the three Ds. But maybe you could give us some context on the three Ds, what do you think the competitive advantages Brookfield has in each of those three Ds, the similarities and say, the differences?

Samuel Pollock: Okay. Well, first, I think of the three, the biggest opportunity relates to decarbonization as far as capital spend and -- if you've been here today, you've probably heard us talk a lot about our ability on the supply side and everything that we're doing related to transition, and then just our historic experience in investing in utilities and now, the demand side decarbonization. So I think we've staked out a number of parts of the whole decarbonization sector, that gives us a clear advantage. And the capital needs are large there, so between the operational capabilities and the capital, I think clearly, we should be seen as a leader for that sector.

As it relates to digitalization, that's probably the second largest investment area for the next, let's call it, 20 years. I think that will be relatively competitive. I think we have invested in, you know, in every part of the world, in every part of the infrastructure component of the telecom sector, so I think we have the operational skills there. It will be more competitive and more cost of capital oriented, but I still think we will get more than our fair share of good opportunities, as we've proven out recently with the DFMG transaction.

And then on deglobalization, look, that is new territory. And I think we've already put our stake in the ground by doing the Intel transaction. And I can tell you, all our peers are calling, all the investment banks, calling even us, to ask us, well, how do you do this and what does it all mean? So clearly, we're ahead of everyone on that one. People will catch up, but I think we've established ourselves as a leader in that area, and I think we'll at least have a head start.

Andrew: That's helpful. And then just as a follow-up.

You're obviously value investors that are DCF-focused. But from a NAV standpoint, when we think about the stock in particular today, are there certain areas you want to bias the balance sheet towards that have maybe a more pronounced impact on the NAV today, like, digital being one of them where valuations tend to be higher, growth rates tend to be higher? How do you think about that on a longer-term basis?

Samuel Pollock: When we make investments, we're making them for 10, 15, 20 years. So the ability to pivot our balance sheet quickly, we can't do that based off what's the flavor of the day.

So we make investments, and we're just looking for opportunities to invest, as you just mentioned, on a value base so we can earn our 12% to 15% return with hopefully very little downside risk associated with it. And just clip those coupons and compound wealth over a long period of time, and not get focused on people love data centers today, then six months later, people hate them. We don't think about that. We just focus on each deal as they come along. And then when we see opportunities to sell for value, we will take those opportunities.

Cherilyn Radbourne: Cherilyn Radbourne from TD Securities. I feel like Andrew stole my question on the three Ds, so I'll ask something else.

So you've presented a pretty compelling organic growth backlog for the business. Clearly, for the last couple of years, you've been very active on acquisitions. You haven't talked a lot about your current M&A pipeline. And I guess I'd just be curious, how do you high-grade in environments like this, where presumably, there are some opportunities to acquire for value that are emerging, possibly including take privates? So can you maybe speak to that a little bit?

Samuel Pollock: Sure.

So I can't be specific, but what I can say is we have sort of a continuous process. As you can appreciate, we have deal teams, all of us have deal teams around the world, and we have a whole funnel of opportunities, and we'll work on some. And then as the world changes, we will let some of them drop and focus on the ones that we think provide better opportunity. We only have so much capital we can deploy, so we're always trying to pick the best opportunities.

And similarly, as we think about asset rotations, just coming back to what Andrew was asking about, there's times when some assets are more in favor than others. And even though we have sort of a timeline of when we think we'll complete a business plan for a particular investments, we might accelerate things if it's particularly hot and sell that into the market.

So it's a constant evaluation month-to-month of what deals should we focus on and what businesses should we recycle. And so it is a very much iterate process, and sometimes, it makes sense to privatize and we've done a lot of privatizations in the last couple of years. Other times, it's better due to carve-outs. We may be in this period of acquiring more public companies in the next couple of years if the markets keep on doing what they are doing the last couple of days.

Robert Catellier: Rob Catellier, CIBC Capital Markets.

I have a question about the global transition funds. It seems like BAM has some pretty big aspirations there and some early success. I wonder how you see those investment opportunities permeating through the various listed entities, and how you'd characterize the relative opportunity for Brookfield Infrastructure?

And if you could specifically address the ability to invest in the nuclear value chain at BIP?

Samuel Pollock: Okay. So those -- those are less relevant for me, but I'll tackle them.

On the transition front, I would expect the vast majority, if not all of them, would go through BEP. Having said that, as you can see from the demand side decarbonization, there's businesses we're still figuring out where the right home is for it. And there might be some businesses today that might have a transition opportunity within it, say, IPL, where we could invest related to hydrogen. And so we would likely do that within BIP.

So I'd say for the most part, just to keep the answer are simple. It's primarily BEP for transition, but there will be situations where it will make sense for BIP as well.

As it relates to nuclear, I think, again, that's more related to renewable energy. I think they probably have aspirations of looking into that sector as another one of the technologies that they spoke to, and it's probably not something that we would do inside BIP.

He's nodding, so that's -- I must have answered that right.

Naji Baydoun: Naji Baydoun, Industrial Alliance.

You've got a remarkably successful couple of years in acquisitions. I'm just wondering when you think about your $1.5 billion annual target, where do you think the run rate is today, just given the opportunities ahead? And maybe just a refresher on how you could fund excess capital deployment opportunities? Thank you.

Samuel Pollock: Okay. I kind of figured I set myself up for that question.

So we -- obviously, we haven't yet adjusted that target level. I think it's safe to say, though, that even though investments can be lumpy, our expectation is probably that in

the near future, we might have to move that level up and the target might be closer to two, let's say, on a run rate basis.

As far as funding it, we are now at that stage in our investments where we have a lot of businesses maturing. And we probably have -- I think this year alone, we're thinking about $2.5 billion of proceeds from different asset sales. That's probably not a bad run rate for us going forward as far as proceeds from asset sales. Some years, depending on market conditions might be a bit higher, a bit lower, but that's not a bad number. And so that will fund the vast majority of new investments. And then obviously, we have the capital markets to help us to the extent that we invest more than we expect.

James Small: My name is James Small. I'm very intrigued by what I've heard today.

I've been curious to Inter Pipeline transaction and your Intel deal. Would you describe them as opportunistic or start of a trend? Because they don't seem to fit inside the typical infrastructure nomenclature. It's not a utility, it's not even like the mass of the telecom business. But is this simply a one-off or just two-off transactions? Or are these something that sort of indicates the direction that BIP is going to go? Curious about that.

Samuel Pollock: Well, look, I would say, for the most part, that IPL for us would be middle of the fairway. It's a very strong midstream franchise. Obviously, the Heartland facility is maybe a little bit closer to the rough. But for the most part, that would be, I think, a traditional asset class for us.

Intel is one of those that we think is going to be an emerging infrastructure class, so we took a view as to the various characteristics of structure we could come up with. And Natalie, I thought, described it pretty well by giving you a couple of examples, namely hyperscale facilities. We think this is actually a better investment than most hyperscale facilities today just because of the counterparty and some of the protections we have in the contracts, and we think the dollars in the near term are going to be very large so I think there's an ability for us to create a new asset class related to data. I think that's probably where it fits. And I think you'll find lots of copycats in the not-too-distant future.

Robert Hope: Rob Hope, Scotiabank.

Just in terms of the investment outlook moving forward, over the last year, similar to what BEP had actually discussed was that a lot of the acquisitions you've made have a very long and pretty visible development pipeline. So when you take a look at kind of the next couple of years in terms of your acquisition strategy, are we seeing less of a focus of buying for value on day one and I guess, more of a focus on building out that growth and really say, crystallizing that value?

Samuel Pollock: No, I wouldn't say that. I think, look, every market is a little different. We love to buy cash flow, so we can buy straight cash and have very little uncertainty around FFO, then that's great, and we'll do that and that comes up. I think IPL was that to

a certain extent. Obviously, it was completed in Heartland, but the rest of the business was a high cash flowing business. And we've done a number like NTS in the past.

Some of the other businesses, particularly ones in Australia, the fiber to the home, smart metering business, the going in cash was relatively modest but we have a very visible and contracted pipeline. And so, our ability to look out three or four years and see the amount of cash that's going to be generated was very visible. So we're comfortable buying that as well because we don't feel we're taking, let's call it, platform risk or growth exposure. We actually can see what it is. And then we're just trying to obviously grow those businesses and add to the number of contracted growth that's in place.

So I appreciate people might want to go get drinks. So maybe, we'll end it there. I think my job is to thank everyone who was listening to this virtually, as well as everyone here.