

# Introduction and Context

## Infratil Investor Day 2014

Together



Infratil 2014

### Absolute returns

- IFT's goal: **deliver long-term excess returns significantly above our cost of equity**

### Long term focus

- **Sustained performance** through different phases of the investment cycle and capital markets

### Active management

- Excess returns driven by our **high-touch operational approach**
- Origination, investment, performance management and potential for recycling

### Growth infrastructure

- **Operationally-complex** assets, **development** projects, **reinvestment** options
- Typically require a longer holding period to realise benefits

### Flexibility

- Focus on assets with **operational control** at **attractive entry price**, where we can **manage downside risks**, and deploy our **active management** approach

# Total shareholder returns enhanced through a well balanced portfolio

## Optimised risk and return across the portfolio



### Diversified earnings

- Diversified earnings and cash flow can **offset short-term performance shortfalls** of any individual asset

### Balanced portfolio

- Lower risk **core assets** provide the cash flow to support **high return early stage investments** delivering **higher blended absolute returns**

### Reinvestment options

- Low maintenance-capex levels and **reinvestment options** create **significant flexibility** over the timing of major cash flows

### Capability

- Certain capabilities can be **leveraged across the portfolio**
  - Governance, risk and project management, capital markets and financing, leadership development, regulation, insurance

### Active risk management

- Portfolio operates within **targeted return, credit and liquidity parameters**, under realistic potential downside scenarios





# A bias towards businesses with reinvestment opportunities

## Re-investment in existing businesses and development of options



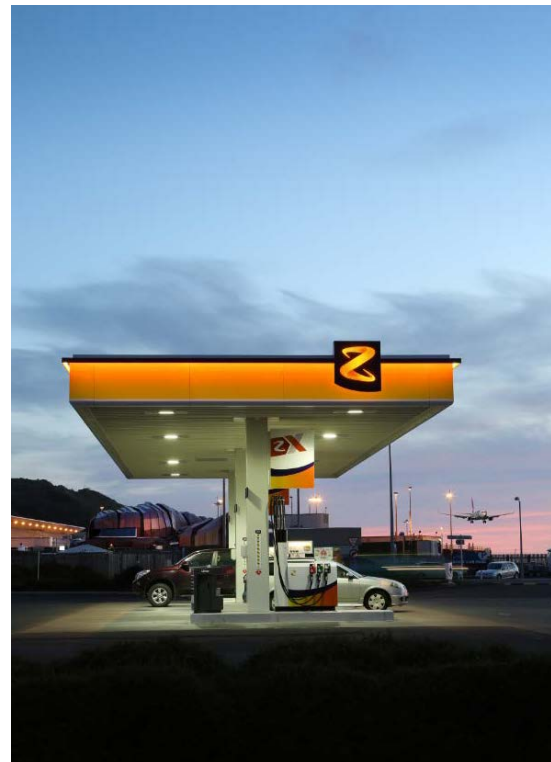
- Preference for businesses with **potential to be market leaders**
- The best assets deliver a steady stream of **re-investment opportunities**
  - We **control timing and size** of significant capital programmes
  - New capital investments are **uncontested and exclusive** to IFT
  - Project risks are assessed against a sector that is **well understood**
  - Investments are executed by **management teams we trust**
  - **Strong governance & risk management** in place or readily implemented
- **Real options have traditionally been undervalued**
  - IFT has derived significant value from holding options to invest with long-dated expiry (most were difficult to quantify in acquisition base cases)
  - Value can be created by continued investment in development of new options once assets are in place



# Operational approach drives a private market emphasis

## Focus on positions of strong influence or control

- Active management of risks and investments is optimised **when IFT wholly owns or controls an underlying asset**
  - **Private markets are better suited** to heavy transition programs, governance/management shake-outs and significant reinvestment
  - **Confidence around expected returns is enhanced** when IFT/Morrison & Co is managing 100% of the equity in an asset
  - IFT provides retail and institutional investors **with access to private market infrastructure** opportunities that are **typically only available to large direct investors**
- **Public markets can be relevant** under certain circumstances
  - While less likely, listed markets can offer investment opportunities for IFT as an **active investor targeting complex or operationally demanding assets**
  - Special situations or minority positions where there is a **clear value gap and an opportunity for active management**



# Growth infrastructure demands a focus on risk management

## Translating project risk into high total returns



- Growth infrastructure implies management of **greenfield exposure, demand risk or activity in markets undergoing significant change**
  - Requires **active management** to manage downside risk
  - IFT has the **ability to build start-up positions when secondary assets are expensive** but sector outlook is positive (e.g. Lumo/Infratil Energy Australia)
  - IFT prefers assets that can **combine defensive attributes with attached commercial opportunities** (e.g. airports where half the value is non-aeronautical services)
- **Platforms** are a useful way to take on **more controlled risk** and “**manufacture**” **future low-risk infrastructure**
  - **Individual components** of a platform are often relatively cheap to obtain
    - e.g. Landowner agreements or options over future wind sites
  - **Valuation gains can be significant** as development risk is converted to a long-term, low risk operational profile with contracted revenue streams
    - e.g. Wind farms with long-term power purchase agreements in place

# IFT capital structure is important

## Enhancing returns through the prudent use of parent company debt



- **Equity returns enhanced** through the use of parent company and subsidiary debt
  - Subsidiaries that can sustain their own bank and bond programs will hold an **appropriate level of debt** where possible
  - Balance of **portfolio capital requirements** will be met by parent company bank and bond programs that operate within **clear credit metrics and liquidity parameters**
  - **Scale efficiencies and lower overall cost** is achieved by coordinating debt capital market activity at the group level
- **IFT DPS profile is a reflection of pass-through imputation credits and current earnings** relative to medium term re-investment opportunities
  - First priority is **capital growth and reinvestment**
  - DPS also reflects IFT **confidence around future earnings** outlook

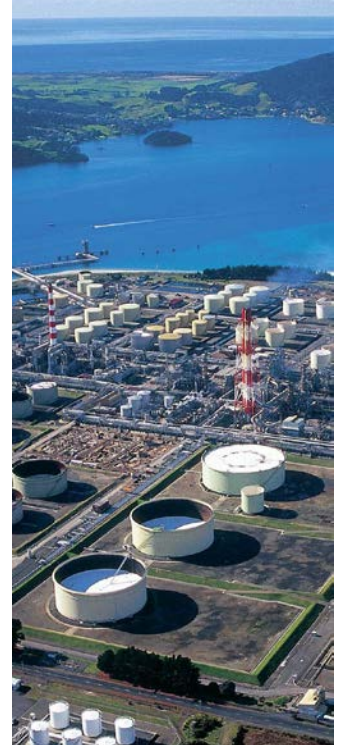


# The world we face today

## Positive outlook moderated by increasingly competitive infra market



- **Low interest rates and increasing focus of large scale funds** on low-risk infra have been the most significant dynamic in private markets over the last 5-7 years
  - We are at the point of divergence – i.e. the beginning of tapering should impact the rate-sensitive assets
  - Need to differentiate between low-risk core infra and higher-risk development infra re valuation shifts
- **Long-term macro infrastructure trends remain intact and play nicely into IFT's experience and capability**
  - Planned urbanization, privatization and developed markets renewal require a significant increase in investment and operating capability
  - Development infra is relatively better priced and should respond well to our high-touch model



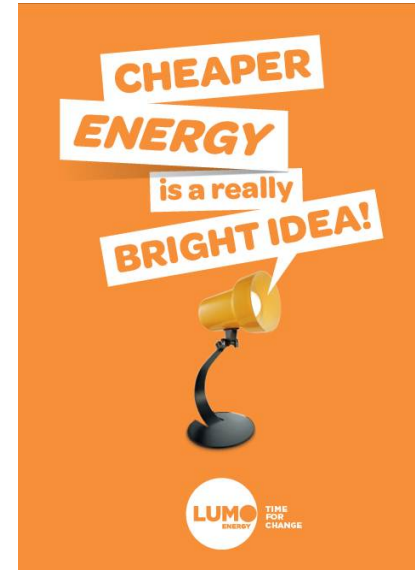


# The world we face today (cont'd)

## Positive outlook moderated by increasingly competitive infra market



- Competitiveness of the infrastructure investment market and supply of low cost of capital funds are **reinforcing IFT's focus on development platforms**
  - Most large SWF's and pension funds still shy away from greenfield or development infra
  - IFT is focusing significant investment into differentiated early stage infrastructure ideas and building future investment "platforms"
- IFT is **confident of the origination program and internal pipeline** of opportunities, from well positioned and established existing investments



# IFT origination approach is being extended

## Strategies to target less competed, higher returning opportunities

### 1 Building platforms



#### Description

- Invest into seed assets with proprietary development and/or investment pipeline that enable meaningful follow-on investment over time
- Focus on attractive sectors with long term growth prospects

#### Examples

- PPP
- Wind and renewables
- Retirement village and aged care

### 2 Manufacturing infrastructure



- “Manufacture” assets with attractive infrastructure characteristics from components not separately recognised as “infrastructure”, e.g;
  - Sale and contract-back structures from corporate balance sheets
  - Roll-up/aggregation of assets in a sector
  - Creation of shared infrastructure platforms across multiple users

- Early stage initiatives under consideration across multiple sectors:
  - Telco Infrastructure
  - CSG Infrastructure
  - Australian Fuel Import Infra
  - Solar

# Current valuation – market flows and supply dominate structure

## Portfolio is being re-set for the next phase of the investment cycle

- IFT's existing portfolio and development options should translate into above-average total returns over the next 5 years
  - Base case scenarios forecast strong EBITDAF growth over the next 5 years
  - The portfolio is going through a refresh of its core private market positions and is transitioning through listed positions in ZEL and MET
  - Earnings outlook is benefitting from recent investment decisions and strategies
- Discount to NAV is a concern however market conditions appear to dominate structural or long-term questions over the closed-end listed fund format
  - Regulatory concern, perception of overhang and concerns over the returns from future origination outweigh questions over external management, conglomerate discounts, or debt
  - IFT's "raison d'être" remains strategically relevant to retail and institutional investors (i.e. there are no cheaper access points to the same opportunities, competitive products are limited, and the track-record remains very positive)

# IFT guidance and near-term outlook

## Resumption of normal transmission in 2014/15

- **2013/14 EBITDAF guidance** lower due to slightly weaker trading performance in TPW and NZ Bus and weaker \$AUD earnings
- **Improved operating cashflow** guidance reflects a reduction in EBITDAF offset by improvements in working capital and dividends received on the completion of the Z IPO
- Capital structure and confidence in outlook are positive for continued growth in dividends per share
- **Strong growth outlook for 2014/15** due to the completion of Snowtown II, full year contribution from MET, and performance improvement across other businesses

31 March	2014		2015
NZ \$m	Updated Guidance*	Previous Guidance	New Guidance*
<b>EBITDAF (continuing operations)**</b>	<b>\$490-\$500</b>	\$500-\$540	<b>\$530-\$560</b>
<b>Operating cashflow</b>	<b>\$400-\$420</b>	\$360-\$400	<b>\$330-\$360</b>
<b>Net interest</b>	<b>\$180-\$185</b>	\$195-\$205	<b>\$180-\$190</b>
<b>Depreciation &amp; amortisation</b>	<b>\$150-\$160</b>	\$150-\$170	<b>\$170-\$180</b>

\* The 2014 guidance update is based on year to date results to February 2014 and does not represent actual results for the full year ended 31 March 2014 and accordingly has not been audited. The 2015 guidance is based on current expectations and assumptions of Infratil investments trading performance and is subject to risks and uncertainties, is dependent on prevailing market conditions continuing throughout the outlook period and assumes no other major changes in the composition of the Infratil investment portfolio. Trading performance and market conditions can and will change, which may materially affect the guidance set out above.

\*\* EBITDAF is a non-GAAP measure of financial performance before deductions for interest, tax, depreciation and amortisations and financial derivative movements, and includes adjustments for the Z replacement cost of inventory



# The IFT recipe from here

## Consistency and discipline as we move through to the next phase

### Deliver on our promises to the market

- Maintain our **disciplined origination approach**
- Invest in the **internal development pipeline**
- Keep a **tight rein on capital management**

### Maintain focus on performance management

- Achieve targets and **maintain high-quality management teams and systems**

### Make the right portfolio calls

- Maintain **broad sector coverage** in domestic markets
- Develop **medium term options** to fill the pipeline
- Invest in **knowledge and relationships** in high growth markets to develop future optionality
- Continue to **monitor market conditions** and **review portfolio holdings** of more mature assets





[For more information go to infratil.com](http://infratil.com)