

# EDITED TRANSCRIPT

## ATCO Ltd. (TSX: ACO.X, ACO.Y) NELTUME PORTS INVESTMENT INVESTOR PRESENTATION

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ATCO Ltd. (ACO.X, ACO.Y) NELTUME PORTS INVESTMENT INVESTOR PRESENTATION

September 12, 2018 09:00 am MDT

## CORPORATE PARTICIPANTS

**Nancy Southern** *ATCO Ltd. – Chair and Chief Executive Officer*

**Siegfried Kiefer** *ATCO Ltd. – President and Chief Strategy Officer*

**Dennis DeChamplain** *ATCO Ltd. – Senior Vice President and Chief Financial Officer*

**Myles Dougan** *ATCO Ltd. – Senior Manager, Investor Relations*

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**Myles Dougan** *ATCO Ltd. – Senior Manager, Investor Relations*

Good morning, everyone.

We're pleased you could join us today to hear more about our agreement to invest in Neltume Ports. Please note that a slide presentation will accompany our remarks. A copy of the presentation is available on our website at [atco.com](http://atco.com). It can be found in the Investors section under the heading Events and Presentations.

In accordance with securities laws, we will not hold a question-and-answer period today.

I'd like to remind you that our remarks today will include forward-looking statements that are subject to important risks and uncertainties. For more information on these risks and uncertainties, please see the reports filed by ATCO with Canadian Securities Regulators.

I'd also like to point out that during this presentation, we will refer to certain non-GAAP measures, such as adjusted earnings and earnings before interest, taxes, depreciation, and amortization, or EBITDA. These measures do not have any standardized meaning under IFRS, and as a result, they may not be comparable to similar measures presented by other entities.

With that, I'd like to introduce our three speakers this morning. With me today to discuss the investment are Nancy Southern, Chair and Chief Executive Officer of ATCO, Siegfried Kiefer, President and Chief Strategy Officer, and Dennis DeChamplain, Senior Vice President and Chief Financial Officer.

And now, I'll turn the call over to Nancy for her comments.

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**Nancy Southern** *ATCO Ltd. – Chair and CEO*

Thank you Myles and good morning everyone. Thank you for joining us today.

I'm very pleased and proud to announce that ATCO has entered into an agreement to acquire a 40 per cent investment in Neltume Ports for \$450 million Canadian.

This acquisition represents a terrific opportunity to invest in the growing South American port business. Neltume's 16 diversified ports are based in Chile, Uruguay, Argentina and Brazil.

Our trusted partner in this business, Ultramar, is controlled by the von Appen family, who we've come to know, through a long-standing relationship, as operators and managers with the highest of integrity and a strong reputation in Latin America and 2 years ago formed a new company partnership, ATCO Sabinco, to manufacture modular space units and workforce housing.

The current management team at Neltume represents the third generation in the shipping and port related infrastructure business. Throughout the due diligence process, we noted strong compatibility between our organizations, both operationally and in principle. Management's values and long-term views are closely aligned with ours at ATCO; with a keen focus on integrity, employee and labor relations, agility, and operational excellence.

With this acquisition, our long-term strategy to expand our holding company structure is significantly enhanced with the addition of our 40 per cent interest in Neltume Ports which complements ATCO's existing interest and ownership in Canadian Utilities, ATCO Structures and Frontec our logistics group, and ATCO Investments which is our commercial real estate arm.

ATCO brings its broad expertise in global energy infrastructure and logistics to the Neltume strategic partnership.

Going forward, ATCO will continue to focus on investments that put us at the forefront of global trends. We will strive to deliver growth within our holding company portfolio with a focus on select opportunities in the essential global services of Energy and energy infrastructure, Housing, Water, Real estate and now, with the investment in Neltume, we are adding Transportation and, through Neltume's exposure to South American food exports, to Agriculture.

Our strategic rationale behind the investment can be broken down simply.

This is an investment with a trusted partner of strong shared values. It builds on our existing business relationship formed in 2016 with the 50 per cent interest in ATCO-Sabinco. With the port operations Neltume brings an outstanding reputation with its employees and customers alike.

This is an investment that diversifies ATCO's portfolio by industry and geography and further expands our business activities in Latin America. While this is a new business for us, it has strong parallels to existing ATCO businesses with franchise-like infrastructure opportunities, long-term contracts, and a common customer base in the minerals industry who also have need for remote workforce housing and logistics services.

This is a low risk investment that increases ATCO's participation in global trade and transportation. We see continued global demand growth for Chilean mining products and continued global demand for Latin American agricultural products driven by strong macro-economic factors.

The on-going globalization trend and stronger GDP growth expectations in Latin America compared to North America create a positive environment for Neltume to capitalize on and continue to grow its business at a rate that is consistent with ATCO's goals and plans.

And now, I will turn the call over to Siegfried Kiefer, our President and Chief Strategy Officer, to discuss the Neltume port business in more detail and the drivers behind Neltume's growth plans for the future.

**Siegfried Kiefer** *ATCO Ltd. – President and CSO*

Thanks Nancy and good morning everyone.

In its more than 20 year history, Neltume has grown to 16 ports in Chile, Uruguay, Argentina and Brazil. The company has a strong track record of growing volumes through organic expansion, as well as from acquisitions and increasing ownership in existing ports. Along with Neltume's geographic positions in Latin America, its diverse volumes and cargo types improve its revenue risk profile.

If we look at business activity by cargo type, about half of the activity is by container. Container terminals handle the movement of mixed consumer goods in 20-foot or 40-foot containers. Container ports typically provide storage facilities for container transport to and from the surrounding area. About one third of the port activity is bulk, meaning raw commodity transport, such as minerals and grains. A bulk terminal is often dedicated to a specific commodity cargo. 19 per cent of cargo is break bulk or general cargo which is any cargo that must be loaded individually. Examples include bagged cargo such as coffee, fruit, wine, or vehicles.

And if we look at the activity by geography, we see that Chilean ports moved just under two thirds of the weight but the activity is well diversified among the four South American countries. Neltume's earnings are also well diversified. About a third of earnings come from varied minerals and resources, another third comes from container terminals, and the remaining third comes from multi-purpose terminals, largely serving the forestry and agriculture sectors.

If you are looking at our presentation, slide 12 provides a brief overview of each port by location, terminal type, key cargo, and by Neltume Ports' ownership percentage if it is a joint venture arrangement. These joint venture arrangements are a key risk mitigation method. Equity stakes in a port may be used to secure committed volumes where economically profitable. Strategic partners include shipping lines and cargo owners – these are the most important customers at the port. Neltume has successfully entered into several of these strategic partnerships.

As we see on slide 13, Neltume has exhibited a strong record of growing volumes with a 12 per cent compound annual growth rate in cargo volumes and a 7 per cent CAGR on container volumes. In 2017, the Company increased its number of terminals from 10 to 16 by acquiring new ports and increasing its ownership in existing ports. From 2010 to 2016, cargo and container volumes grew at an annual rate of 8 and 6 per cent, respectively, largely due to organic expansion. This consistent and stable rate of growth can be attributed to the strategic location of Neltume's ports, which are situated in important economic hubs such as the mining areas of Northern Chile, and agribusiness regions of Uruguay, Argentina, Southern Brazil, and Southern Chile. We expect continued growth in these areas in the future.

Overall, diversified growth has come from multiple countries, sectors, clients, and cargo types. Looking forward, GDP growth in Latin America is expected to continue at a more rapid pace than Canadian GDP growth. This Latin American growth will be driven by agricultural exports and by global trends in electrification and energy demand that are expected to drive continued demand for copper and other energy products.

Neltume's port operations in Chile, Argentina, Uruguay and Brazil are well positioned for export to the Middle East and Far East. For example, China is Chile's largest export destination. Chile has been one of Latin America's fastest-growing

economies averaging 3.5 per cent GDP growth over the last 8 years. The OECD expects Chilean growth to continue at around that rate in the coming years. The Chilean government has set targets of 4 per cent annual GDP growth each year and is on track for 5.3 per cent GDP growth in 2018. Container ports primarily handle the import and export of consumer goods, which is closely linked to the level of domestic consumption in each region. There is a strong correlation between GDP growth and cargo throughput growth. Independent studies have shown that South American container port throughput grows by a multiple of 1.6 times to 3 times that of GDP growth. Neltume's container ports are well positioned to capture the rising import/export activity that will come from continued strong GDP growth in Latin America.

As the world continues to electrify, there is a growing need for copper. Chile represents 28 per cent of global copper supply and sits at the low end of the cost curve. An expected growth in copper prices and an expected global copper supply deficit starting in 2020 are anticipated to spur new copper mine investment in Chile and increasing copper exports. Two of Neltume's ports are focused on the Chilean copper industry and other Neltume ports have copper as one of the main cargos. These ports are well positioned to capture this future copper export growth activity. So expanded activity in Neltume's existing bulk ports, driven by increased export demand, is another attractive feature of its growth path.

Yet another avenue for growth may be through brownfield development. Berth expansions create increased draft that allows terminals to receive bigger ships and larger volumes. Neltume has successfully implemented these kinds of projects in the past and has identified berth expansion opportunities that would create market share growth at certain ports. Berth extension opportunities may also arise as growth opportunities. Neltume has an extensive track record of growing its business through organic expansion, as well as through acquisition and increasing ownership in existing ports. We expect to continue that strong track record of growth activity. Funds from ATCO's investment in Neltume Ports will be used by the company to finance opportunities for growth.

In summary, Neltume Ports represents an excellent investment opportunity for ATCO with strong growth prospects driven by continued GDP growth in its markets, ongoing growth in export demand, and Neltume's proven track record of growth by acquisition and organic expansion.

And now I will turn it over to Dennis DeChamplain, our Chief Financial Officer, to discuss the financial aspects of the transaction.

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**Dennis DeChamplain** *ATCO Ltd. – Senior Vice President and CFO*

Thank you Siegfried and good morning everyone.

First, I'd like to share with you that we expect the Neltume Ports investment to be accretive to ATCO earnings per share and cash flow in its first full year of operations and thereafter.

In 2017, Neltume generated approximately \$120 million CAD of EBITDA. This \$450 million investment is a manageable size and we expect minimal impact to ATCO credit metrics in the short term, and a positive impact to credit metrics over time as cash flows grow. The acquisition will be financed with a combination of approximately \$110 million of cash on

hand and the balance from committed credit facilities. In the near term, we expect to refinance a portion of the purchase with a capital markets transaction in the form of a hybrid instrument.

Looking at precedent transactions for port facilities, the price we have agreed on with Ultramar is a fair price, comfortably within the range of recent port M&A transaction multiples in Latin America.

In summary, the transaction will create excellent near term and long term value for our share owners.

And now I will turn it back to Nancy for her final remarks.

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**Nancy Southern** *ATCO Ltd. – Chair and CEO*

Thanks Dennis. In closing, I'd like to leave you with these key points.

Our investment in Neltume Ports is a rare, attractive opportunity to diversify ATCO by industry and geography and further expands our business activities in Latin America. As Dennis stated, we expect the investment to be accretive to earnings per share and cash flows, which is certainly a key criteria for any of our investment decisions.

We feel a tremendous sense of confidence in our Partners and we are very pleased to add this new business and geographic diversity to ATCO's portfolio of investments. The Neltume Ports investment meets five important criteria metrics ATCO has established: Long term contracts and port franchise or concessions, Business & geographic diversity, Long term sustainable growth in earnings and cash, Ports and transportation are a key to global growth and trade, and Neltume, like ATCO represents a principally controlled enterprise with a decades long successful track record.

Thank you again for taking the time to join us this morning and for your continued support of our Company.

And with that, I'll turn the call back over to Myles.

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**Myles Dougan** *ATCO Ltd. – Senior Manager, Investor Relations*

Thanks, Nancy. And thanks to all of you for participating today. We very much appreciate your interest in ATCO, and we look forward to speaking with you this Friday, September 14 at our Investor Day in Toronto which will also be webcast on the ATCO website. Bye for now.