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ATCO Ltd.

Fourth Quarter 2023 Results Conference Call and Webcast

Conference Call Transcript

Date: Thursday, February 29, 2023

Time: 10:00 AM MT

Speakers: **Katie Patrick** - Executive Vice President, Chief Financial & Investment Officer
Colin Jackson - Senior Vice President, Finance, Treasury, Risk & Sustainability
Adam Beattie - President, ATCO Structures

Conference Call Participants:

Maurice Choy RBC Capital Markets – Research Analyst

Linda Ezergailis TD Cowen – Managing Director

Mark Jarvi CIBC Capital Markets – Research Analyst



Operator:

Thank you for standing by. This is the conference operator. Welcome to the ATCO Ltd. Fourth Quarter 2023 Results Conference Call and Webcast.

As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an operator by pressing star, and zero.

I would now like to turn the conference over to Mr. Colin Jackson, Senior Vice President Finance, Treasury and Sustainability. Please go ahead, Mr. Jackson.

Colin Jackson:

Thank you. Good morning, everyone. We're pleased you could join us for ATCO's Fourth Quarter 2023 conference call. With me today is Executive Vice President, Chief Financial and Investment Officer, Katie Patrick; and the President of ATCO Structures, Adam Beattie.

Before we move into our formal agenda, I would like to take a moment to acknowledge the numerous traditional territories and homelands in which our global facilities are located. Today we're speaking to you from our ATCO Park head office in Calgary, which is located in the Treaty 7 region. This is the ancestral territory at the Blackfoot Confederacy comprised of the Siksika, Kainai, and Piikani Nations, the Tsuut'ina Nation and the Stoney Nakoda Nations that include the Chiniki, Bearspaw, and Goodstoney First Nations. The City of Calgary is also home to the Métis Nation of Alberta Region 3. We honour and respect the diverse history, languages, ceremonies and culture of the Indigenous peoples who call these areas home.

The call today will begin with some opening comments from Katie on recent Company developments and financial results, followed by an update from Adam on our global Structures business. After these prepared remarks, we will take questions from the investment community. Please note that a replay of the conference call, a short supplemental presentation and a transcript will be available on our website at atco.com and can be found in the Investors section under the heading Events and Presentations.

I'd like to remind you all 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 the Canadian securities regulators.

And finally, I'd also like to point out that during this presentation, we may refer to certain non-GAAP or other financial measures such as total of segment measures, adjusted earnings, adjusted earnings per share and capital investment. These measures do not have any standardized meaning under IFRS, and as a result they may not be comparable to similar measures presented in other entities.

And now, I'll turn the call over to Katie for her opening remarks.

Katie Patrick:

Thanks Colin, and good morning, everyone. Thank you all very much for joining us today for our fourth quarter 2023 conference call. Before we move into a more detailed discussion on our results, I wanted to touch on a few significant achievements we had this year.

In 2023, our business delivered adjusted earnings growth of approximately 2 per cent. This highlights the strength of our diversified portfolio as we more than offset the impact of rebasing and the Australian inflation in our largest investment, Canadian Utilities.

Structures had an absolutely, incredible year. They impeccably executed on the strategy we have reinforced consistently to aggressively grow the base repeatable business.



Frontec continued to backfill the project pipeline and as always were exemplars of our corporate values through their operation of two fire relief combination villages in BC and Alberta during the challenging 2023 wildfire season.

And Neltume Ports increased ownership in a number of existing ports and entered into a JV (joint venture) with Nautilus known as the Vancouver Bulk Terminal. These are truly exceptional achievements and a testament to the operational and management expertise that we have across our portfolio.

Moving to our overall financial performance, ATCO achieved adjusted earnings of \$432 million or \$3.82 per share for 2023. As I alluded to earlier, the diversity of our portfolio really showed its worth this year with our non-utility investments more than offsetting the earnings pressure experienced at our Canadian Utilities investment.

I won't go into too much detail on Canadian Utilities as the team just spoke about these points on this morning's call. But I do want to reiterate that we entered into the year knowing that rebasing would create significant cyclicity for CU in 2023. So while the business did see earnings reset downward in 2022 levels, CU delivered great performance and was well in line with our expectations for the year.

Looking ahead to 2024, the Alberta distribution utilities within our CU investment move into their third PBR, performance-based regulation cycle. Consistent with the strategy utilized in the business' first two PBR cycles, the focus is on unlocking efficiencies that drive both premium returns and long-term customer savings.

2024 will also be supported by the recent generic cost of capital decision that increased our approved ROE to 9.28 per cent versus the previous rate of 8.5 per cent for all of the Alberta-based utilities within the portfolio. CU continues to provide ATCO a stream of stable and reliable earnings and cash flows and these regulatory decisions reaffirm our view of the prospective and constructive nature of the regulatory system in Alberta.

Moving to our other investments. ATCO Structures had an unprecedented year. Structures delivered adjusted earnings of \$89 million in 2023, \$35 million higher than 2022. This growth was driven by a number of items, including the continued expansion of our base business, the successful integration of Triple M Housing, further optimization of our fleet and the successful execution of a number of key projects.

To speak to some of these successes and provide an update on the Structures business, I'll turn the call over to Adam.

Adam Beattie:

Thank you, Katie, and good morning, everyone. As Katie alluded to, our Structures business continued to build year-over-year momentum and in 2023, realized significant earnings growth. At the centre of this growth was the continued realization of our global base business expansion. We grew our global space rentals business up significantly in 2023, while also increasing our branch network by six additional locations. This contributed to an increase in our fleet size, number of units on rent and growth of 15 per cent in our average rental rates.

Space rentals remains the cornerstone of our base business and is a foundation for delivering not only sustained performance in this sector, but also as a retail and operational medium to expand our offering in workforce housing, manufacturing, residential housing, permanent modular construction, site construction activities and operations and maintenance activities. Growth in this base business is especially meaningful to our overall results as it contributes between two-thirds to three quarters of our total earnings in a given period, providing earnings stability.



Structures from this basis has been able to service the markets in which it operates with our other diversified products, services and capabilities. This geographical diversification and unique core competency mix sets us apart in the markets where we operate. 2023 also marked our first full year of operations in the residential housing sector following the successful acquisition and integration of Triple M Housing, the largest modular residential housing provider within Canada.

It is well known that attainable housing supply has a current and long-term shortage and high demand has resulted in a significant housing crisis in Canada and elsewhere in the world. We continue to believe that modular housing is a necessary part of the solution to breach the supply and demand imbalance.

Modular housing provides the speed, quality and affordability that the traditional housing sector has been unable to accommodate in response to this demand. This business has made meaningful contributions since being acquired and our success in integrating and growing this segment displays our ability and commitment to excel in new business lines as we execute on our strategic growth ambitions.

In addition to the success we saw in our base business and new market entry during the year, we continue to focus on securing and executing meaningful major projects. This includes the successful execution of the Bechtel Pluto II project, a 2,200-person accommodation village and supplemental parallel modular facilities in Australia, ATCO Structures continues to be a market leader in major workforce housing accommodation projects and other scalable accommodation needs, such as disaster response facilities and affordable multi-family facilities.

In 2023, we delivered a 375-person accommodation village to support the critical recovery of a Northern Alberta First Nation community that was devastated by wildfires.

As we look to the future, there continues to be a solid pipeline of real projects in Australia, Canada, Latin America and the United States that we believe will drive additional opportunities and support growth.

Our recent focus on both the United States and Eastern Canadian markets continue to deliver growth for us in the year with signs of continuing demand to both secure new work and competitively position us to disrupt existing supplies in these markets. We continue to complement our organic, ongoing organic growth with opportunities for inorganic plays, including those similar to the Triple M Housing acquisition, which allowed us to accelerate our position in a growing and complementary business line and added additional capabilities to further enhance our competitive offering to the market.

ATCO Structures is potentially the only multifaceted modular provider in the market able to leverage its diverse capabilities globally. This affords us the ability to offer numerous products beyond fleet to a global customer base.

Our Structures business delivered fantastic results in 2023, featuring sustainable growth and the opening up of new markets via acquisition with the successful integration of Triple M Housing into our business. We continue to distinguish ourselves from peers throughout our segment diversity, geographical footprint and expertise in a variety of modular capabilities, including manufacturing, which completes us across our eight global production facilities. This manufacturing prowess is complemented by expertise in fleet management, project management and the custom design and engineering of modular products.

Collectively, these skills help differentiate us from peers and create the foundation for growth moving forward, and we look forward to sharing further accomplishments throughout the 2024 year.

I'll now pass the call back to Katie.



Katie Patrick:

Thank you, Adam. An exceptional year for Structures and definitely something to be proud of. Congratulations and a special thank you to you, Adam, and the Structures team for showing us just how strong our ATCO businesses can be.

Overall, ATCO had an exceptional 2023 that saw us deliver year-over-year earnings growth despite meaningful cyclical in our Utilities investment. Our targeted capital allocation to non-utility investments and exceptional operating results truly helped mitigate this cyclical in growth in other portions of our portfolio.

As we head into 2024, our Canadian Utilities investment has the key regulatory decisions needed for prospectivity. Combined with numerous exciting strategic developments across our greater portfolio, I'm excited for 2024 and look forward to sharing our achievements as the year develops.

Before wrapping up, I do want to give my sincere appreciation to Brian at CU. I truly enjoyed working with you and wish you all the best on the beach. I have big shoes to fill.

That concludes my prepared remarks. I will now turn the call back to Colin.

Colin Jackson:

Thank you, Katie. In the interest of time, we ask that you limit yourself to two questions. If you have additional question, you're welcome to rejoin the queue. I will now turn it back to the conference coordinator for questions.

Operator:

Thank you. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

The first question comes from Maurice Choy with RBC Capital Markets. Please go ahead.

Maurice Choy:

Thanks, and good morning, everyone. Katie, on this morning's CU call, there was a mention of the Company needing additional equity to support its rate base growth. Given that ATCO owns about 53 per cent of CU, how should we think about your commitment to keep this ownership interest level and if there is that commitment, how do you see yourself funding that?

Katie Patrick:

Yes. Thanks Maurice. It's a great question. CU is absolutely a cornerstone investment for ATCO and will always be a meaningful participant in CU. We're not exactly wedded to the 53 per cent ownership stake that we have. And as equity needs arise for CU, we will weigh those against the other investment opportunities we have in front of us at the time.

Maurice Choy:

Then maybe just as a follow-up to that. I know wedded to 53 per cent but is there a minimum level, call it 25 per cent or 40 per cent of whatever the number is, that you are more comfortable as being your minimum holding?

Katie Patrick:

No, I don't think we have a specific minimum holding. As I said, we will always be a very significant part of the ownership structure of Canadian Utilities. So, it will not be—I don't see ourselves becoming a minority participant in CU.



Maurice Choy:

Understood. Thanks for the clarity. And just to switch over to Adam, I think you mentioned that an acquisition like Triple M helped improve your market position or add a capability to your competitive offering. As you look at the S&L business today and obviously that's running pretty well, what areas do you think will warrant taking another action to improve your market offering or even add a capability?

Adam Beattie:

Thanks Maurice. Well, I guess we can probably look at it in a couple of angles. Number one geographic dispersion. We have got a very good position geographically where we operate in Latin America, Australia, US, and Canada. So, we're obviously going to look at continuing to grow and be competitive in the markets where we exist to operate. And we always look at project opportunities and new geographic positions as they come about.

Secondly, probably more on the M&A (merger & acquisitions) side where I think you're alluding to. Look, we will always look at strategic acquisitions in the markets where we see an acceleration potential to enter or a new opportunity where we can value into our existing products and services. So, I guess the market is fairly open in terms of where we'll look but we'll primarily look in the places we have existing operations already.

Maurice Choy:

Understood. And just so I take that a little bit further. Is there a specific business line that you would have always wanted to get into that current market valuations will help justify that?

Adam Beattie:

I think we really like the existing business lines that we have. Modular is obviously the primary function of what we do, be that manufacturing fleet, workforce housing. Residential housing is obviously a new market for us. It's a very attractive market for us. We like it. We have successfully integrated the recent acquisition. So, we have organic potential to expand that.

And then we'll always look at alternatives to modular whether that be componentized form of building products, alternative building products, remanufacturing timber, steel containerized products flat pack around the world.

So, anything that has a solution in that product line or services associated with it, I think is always attractive to us. We wouldn't move too far from that field, I wouldn't think, as we think we do those activities quite well.

Maurice Choy:

That makes sense. And Katie congratulations on your additional responsibilities with CU and look forward to working with you.

Katie Patrick:

Thanks Maurice.

Operator:

The next question comes from Linda Ezergailis with TD Cowen. Please go ahead.

Linda Ezergailis:

Thank you. Just wanted to expand on Maurice's question about minimum level of ownership recognizing that at this point the expectation is that ATCO will remain a majority owner of CU.



Beyond the financing demands that CU has, might there be some risk of energy transition opportunities potentially crowding out the resources beyond just capital needs and other non-energy ATCO business platforms? Or do you see the synergies between your energy platform in the form of CU and other platforms just getting more compelling as you transition to a lower carbon future.

Katie Patrick:

I think, Linda, I mean, to start, it would be—it's a great problem to have if we have so much growth that we're thinking about how we allocate our capital. And we're looking forward to it and that's absolutely what we are expecting that we have capital allocation decisions to make amongst the various businesses that we have.

But to be clear, ATCO wants all of our businesses to grow and we will set up and structure and consider alternatives for how they finance the growth to make sure that there is no constraints on this growth. So that's really what we're focused on. And, obviously, at the end of the day, there will be from an ATCO perspective, decisions to be made about where we allocate our capital, but we will not constrain the growth of our portfolio investments to continue to access other forms of debt and equity to grow.

I hope that answers the question.

Linda Ezergailis:

Yes. But beyond just the financing considerations, like, what about other synergies in terms of cross-selling to various customers or stakeholder relationships in various geographies. Do you see maybe synergies becoming more compelling across your platforms between CU and ATCO over time or maybe diluting a bit. Can you comment on that as well?

Katie Patrick:

Yes. No we've always had a One ATCO approach in terms of really trying to meet all of our customer needs. And I think, we continue to see those opportunities across all of our business lines. There's numerous examples where Frontec for example will go in and they were early in Puerto Rico, just as an example, and that's helped to create the LUMA opportunities. I think there are many areas where we can work collectively as businesses and share opportunities. And I think those—we see those now and those should continue to be there as we move forward.

Linda Ezergailis:

Okay. Thank you. And just as a follow-up maybe a little bit more of a pedestrian question. In your Neltume Ports, one of your terminals in Uruguay had its concession extended to 2042. Are there any other concessions that might be expiring in the next few years and at risk of not being extended? Or how do we think about the tenor of your franchises on the Neltume side in the port?

Katie Patrick:

Yes. We have a number of different extensions and expiry of contracts that come up over time. And we continue to work—that's a big focus of what they're working on in terms of getting those extensions or creating new opportunities. So there's nothing that I would bring to note as an important change coming forward in the near-term but certainly as part of the business model of having to continuously look at the concessions that we have and continue to get the extensions.

Linda Ezergailis:

Great. Thank you, Katie, and congratulations on your expanded role.

Katie Patrick:

Thanks, Linda.



Operator:

The next question comes from Mark Jarvi with CIBC Capital Markets. Please go ahead.

Mark Jarvi:

Yes. Thanks. Good morning, everyone. So just given the strength in Structures & Logistics business this year's good results, just curious how you think that translates and moves forward into 2024. Can you keep that business flat, or do you expect some contraction after a big year and just given where you think the backlog in the book of business is today?

Katie Patrick:

Thanks Mark. I'll let Adam handle this, but I think, we're very optimistic about its ability to continue to grow and we're very excited about the results in 2023 and we don't see those starting to contract in 2024, but I'll let Adam expand a little more.

Adam Beattie:

Yes. Thanks, Mark. Good morning. Look, I think we've done a very good job from 2022 to 2023 of backfilling our project business with some reliable, sustainable earnings, some of that through organic growth and also through the addition of Triple M. I think our strategy warrants our ability to sustain and possibly expand on our growth prospects. And we feel that the market is quite opportunistic at the moment to continue on a solid and reasonable growth platform.

Mark Jarvi:

Okay. And then we talked earlier in this call about the equity needs at the CU level. How would you say the balance sheet is right now at ATCO, when you think about doing tuck-in deals or expanding on the port business. How would you frame the position of the balance sheet today, ability to fund everything internally, and whether or not there'll be a funding gap over the next couple of years depending on if you did some M&A in the next couple of years.

Katie Patrick:

Yes. I think we have a very strong balance sheet and we have the ability to finance the growth that's in front of us. From our experience in tapping the public markets for the hybrid for Neltume, we do feel that there's good support for various forms of debt financing or hybrid type instruments. And as needed, if we have growth opportunities in the ATCO's specific businesses, we would look to access those to fund that.

Mark Jarvi:

Just on your base funding plan today, do you see a need for hybrids or anything else like that in the next year or two?

Katie Patrick:

It would be really dependent on non-organic growth. To be honest, if we are able to secure some inorganic growth opportunities, then we may need to access the public markets. But obviously, those are not necessarily predictable at the moment.

Mark Jarvi:

Understood. Okay, thanks, everyone. Congrats to Katie for the added roles.

Katie Patrick:

Thanks.



Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Colin Jackson for any closing remarks.

Colin Jackson:

Thank you, and thank you all for your participation today. We appreciate your interest in ATCO and we look forward to speaking with you again soon.

Operator:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.