

BMO Capital Markets
2020 Canadian Infrastructure & Utilities Conference
407 International Inc.

February 6, 2020

The logo features a stylized road graphic on the right side of the slide. The road is dark blue with a white dashed center line and a yellow rectangular marker at the bottom. Two light blue horizontal bars cross the road. The 407 ETR logo is positioned at the bottom right of the road graphic.

407 ETR
Express Toll Route
FAST. SAFE. RELIABLE.

Disclaimer/Disclosure

- This presentation has been prepared by 407 ETR.
- The financial information presented is taken from quarterly and year-end statistics that have been disclosed publicly.
- All financial amounts are shown in Canadian dollars unless otherwise indicated.
- Additional information relating to 407 ETR and / or 407 International, including the 2018 Annual Information Form dated February 7, 2019, can be accessed on SEDAR.
- The statements about expected future events and financial and operating results are forward-looking. Forward-looking statements may include words such as anticipate, believe, could, expect, goal, intend, may, outlook, plan, strive, target and will. These statements reflect internal projections, expectations, future growth, performance and business prospects and opportunities, and, as they are subject to a number of risks and uncertainties, you are cautioned not to put undue reliance upon such statements as they may differ from actual results and developments.

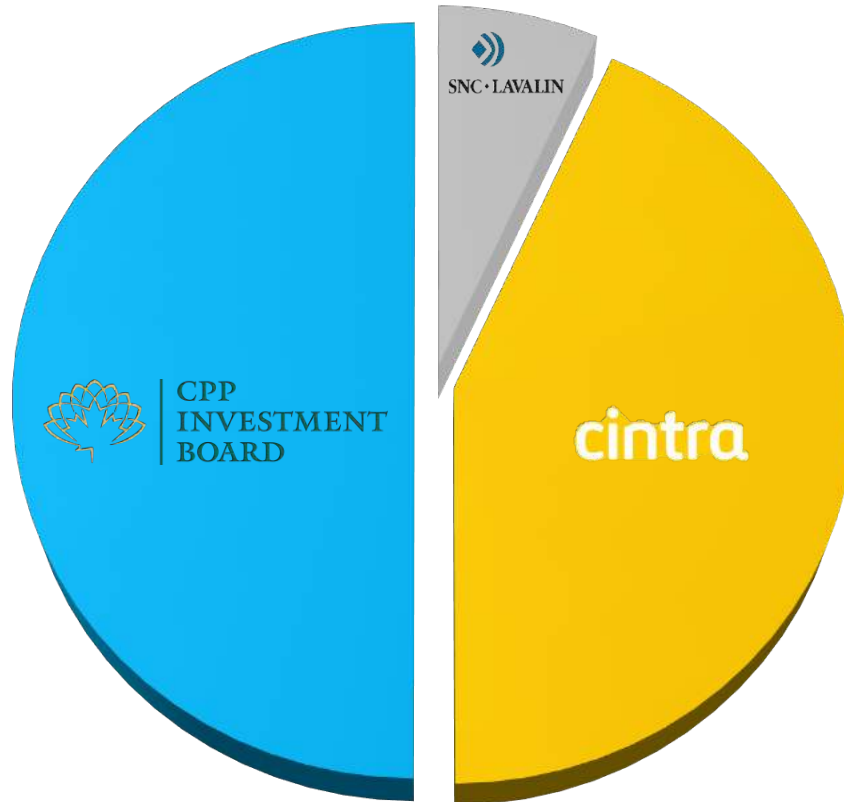
Shareholders



407 International Shareholders

CPPIB: 50.01%

Canada Pension Plan Investment Board. Over \$400B under management. Invests the funds of the Canada Pension Plan on behalf of its 20 million Canadian contributors and beneficiaries.



SNC-Lavalin: 6.76%

Global professional services and project management company.

Cintra: 43.23%

100% subsidiary of Ferrovial. 50 years of experience in developing infrastructure around the world, currently managing 24 projects in 9 countries.

2018 Highlights

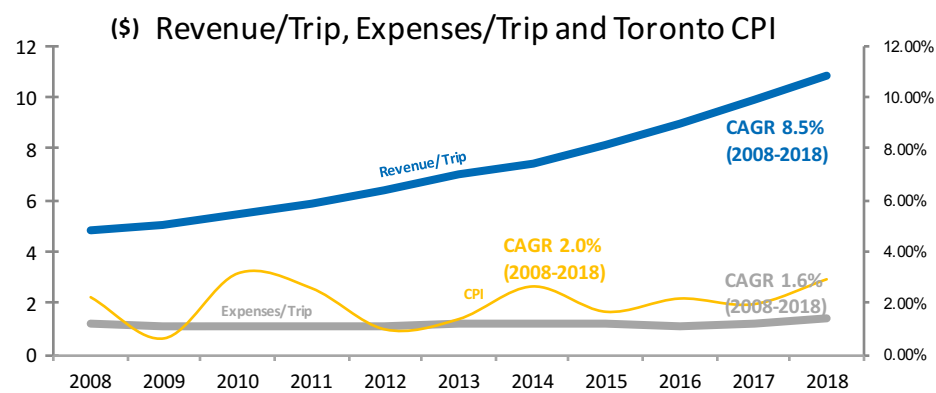
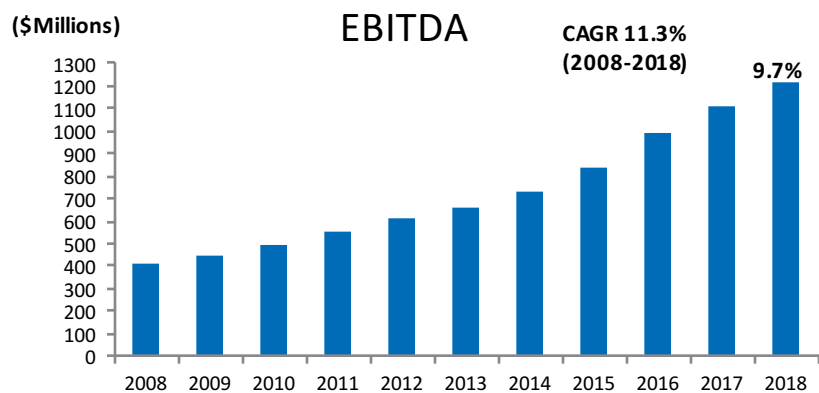
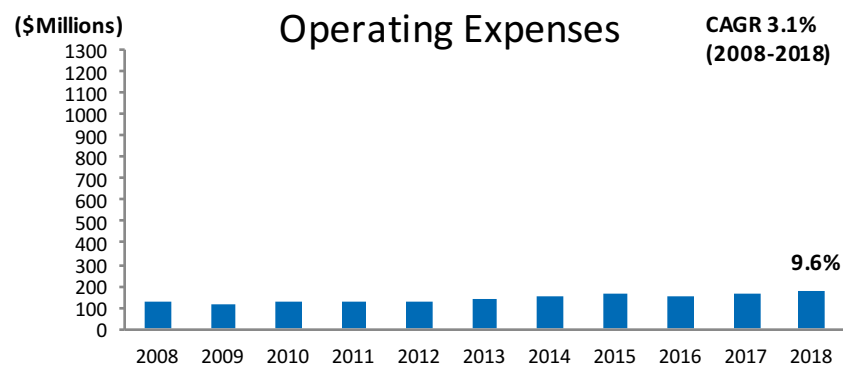
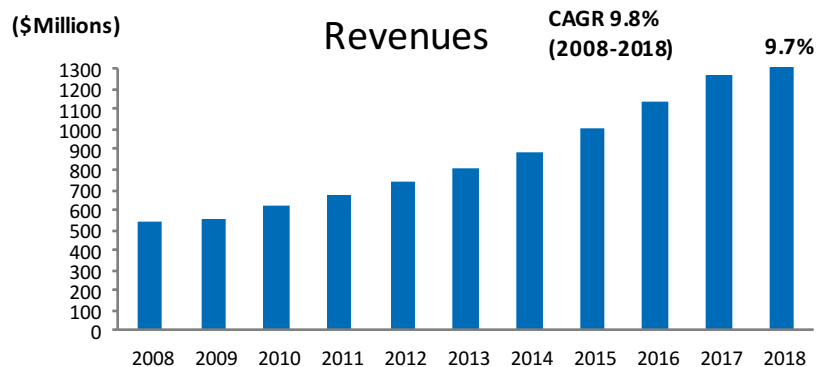


2018 Highlights

		2018	2017	% Variance
Operations	Traffic/Trips (in millions)	126.625	125.738	0.7%
	Average Workday Number of Trips (in thousands)	415.429	413.381	0.5%
	VKTs (in millions)	2,747.482	2,708.588	1.4%
	Average Trip Length (kilometres)	21.70	21.54	0.7%
	Unbillable Trips (percent)	2.36	2.26	4.4%
	Average Revenue per Trip (\$)	10.86	9.96	9.0%
	Transponder Penetration Rate (percent)	82.1	82.1	0.0%
	Transponders in Circulation as at December 31	1,525,396	1,434,485	6.3%

\$ millions		2018	2017	% Variance
Financials	Revenues	1,390.3	1,267.7	9.7%
	Operating Expenses	179.7	163.9	9.6%
	EBITDA	1,210.6	1,103.8	9.7%
	Net Income	539.0	470.1	14.7%
	Cash Balance (December 31)	308.1	763.1	-59.6%

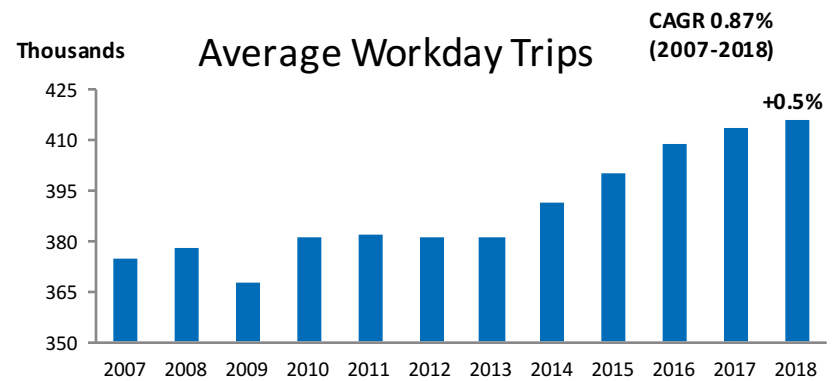
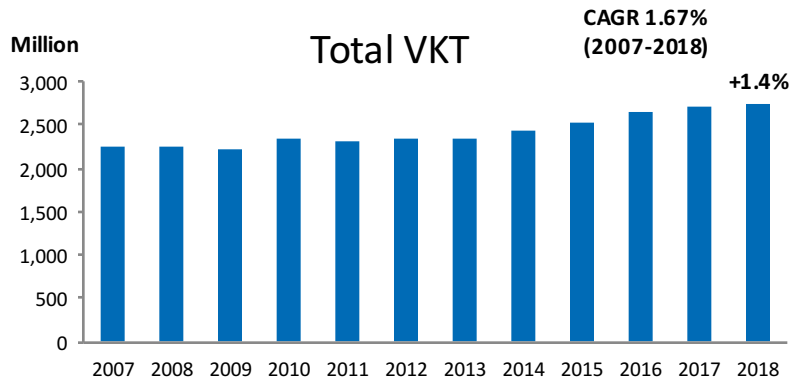
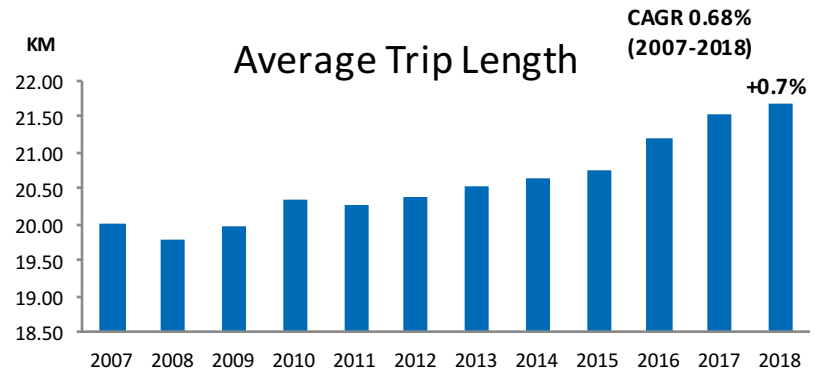
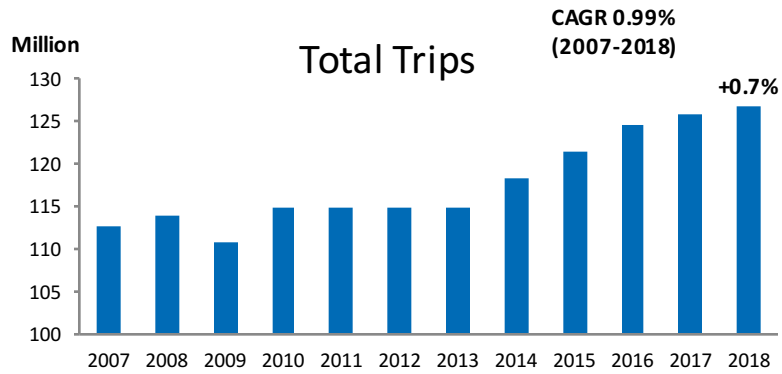
Financial Performance



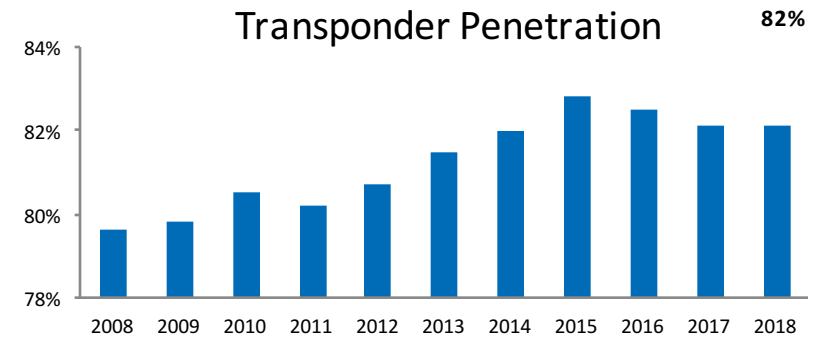
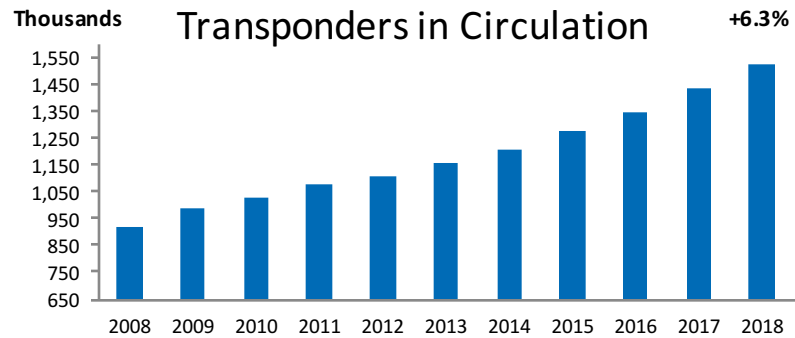
Traffic Performance



Traffic Performance



Transponder Usage



1.5 million
transponders in
circulation

Light



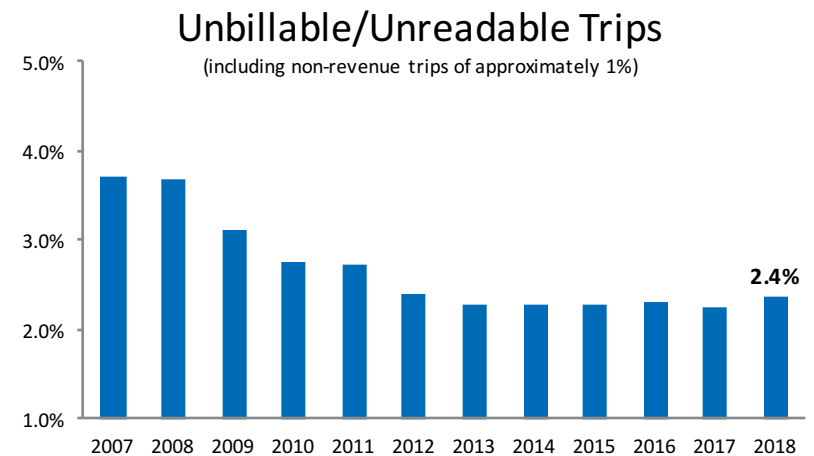
Heavy



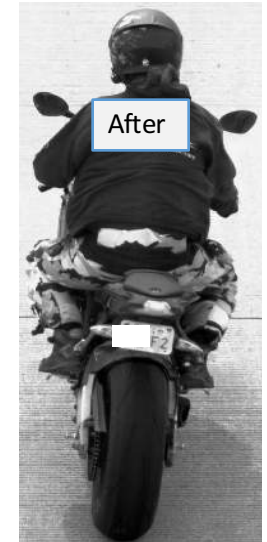
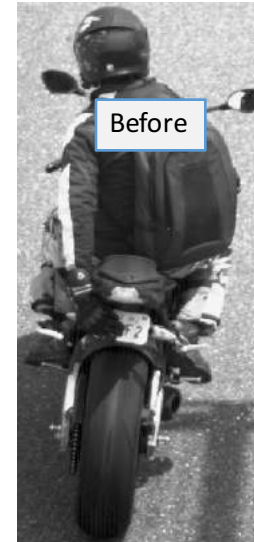
Unbillable Traffic

Management works actively on strategies to reduce unbillable traffic

- Deployment of CMOS and Front Plate cameras to reduce unreadable trips
- Installation of Seeker to improve transponder detection
- Enhanced matching algorithm
- Reduced unreadable trips through improved VEP
- Vehicle fingerprinting technology
- Toll evasion enforcement strategies



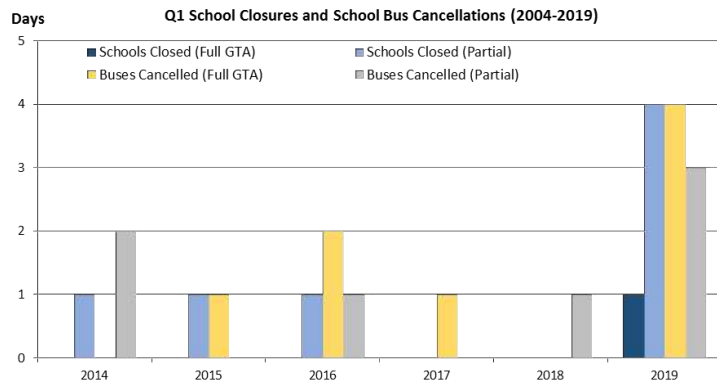
Toll Enforcement: Change of Behavior Study



2019 Weather Summary

Impact of Weather on Traffic Performance – YTD 2019

- Experienced more severe winter weather events impacting workdays involving freezing rain and snowfall causing major traffic issues.
- Anticipated severe winter weather resulted in an abnormally high number of school bus cancellations and/or school closures in the Greater Toronto and Hamilton Area.
- Unseasonal Spring: Coldest May experienced in over 10 Years.
- May and June significantly impacted by colder temperatures combined with higher precipitation events compared to 2018.



- 2019 January: record single day snowfall on a workday (24cm)
- 2019 February: 18 mm freezing rain all falling within Workdays

COMPANY NEWS Apr 29, 2019

Tim Hortons blames weather, weak roll-up-the-rim for slowing sales

"I hate using weather as an excuse," he said. "But given the nature of our high traffic and [high] frequency business in Canada and the severity of the weather impact we experienced in the first quarter, we felt it was necessary to disclose in order to provide a more accurate picture of our underlying sales performance."

<https://www.bonoboblog.com/news/2019/04/29/tim-hortons-blames-weather-for-weak-roll-up-the-rim-for-slowing-sales-11350748>

Big Retailers' Sales Lag as They Gird for Tariffs

Kohl's, whose comparable-store sales fell 3.4% in the latest period, blamed cool spring weather as well as more competitive pricing and promotions by competitors.

<https://www.us1.com/articles/sales-fell-at-kohls-wednesday-1135043281>

Spring was cold to specialty retail

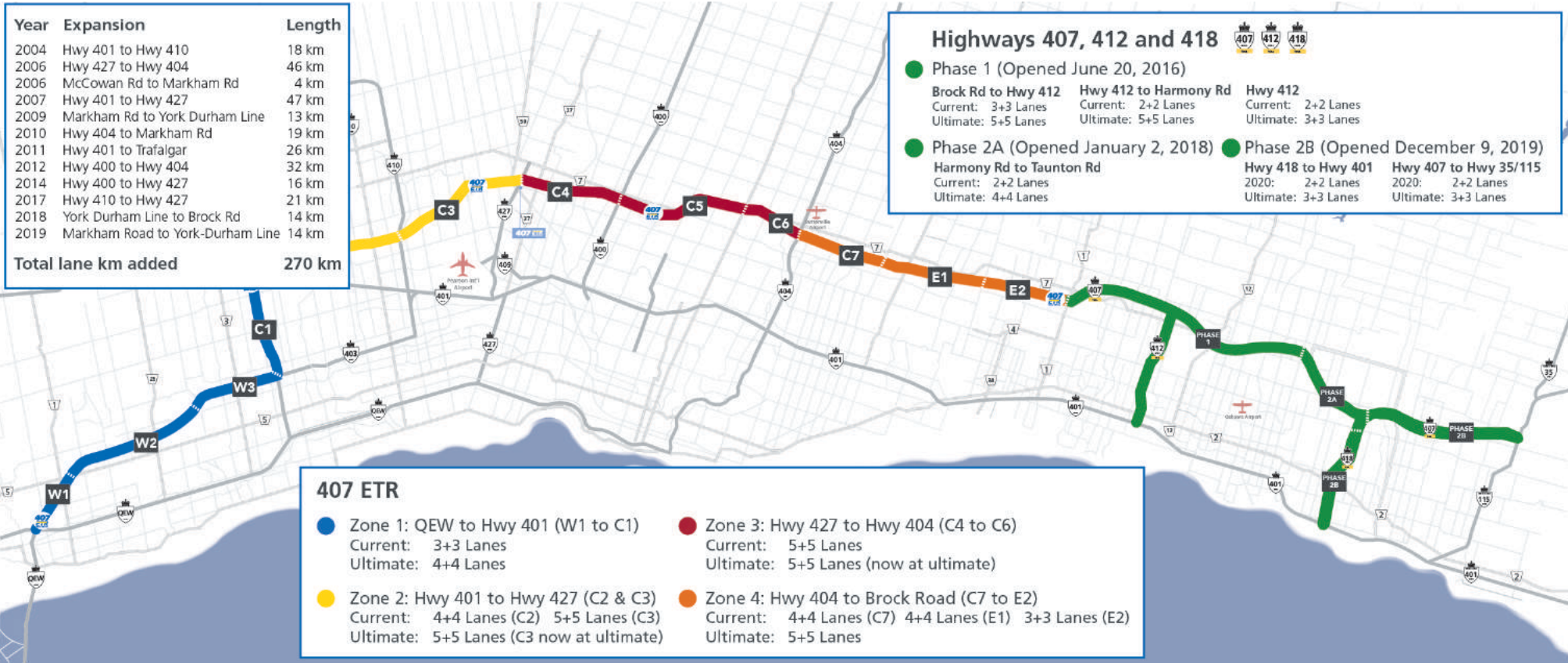
Unseasonable weather and looming tariff jumps knocked several companies off their game, but a few only have themselves to blame.

<https://www.retailwire.com/news/story/news-cold-to-specialty-retail/556665/>

Construction



Current and Ultimate Number of Lanes



Remaining Lane Expansion



2020

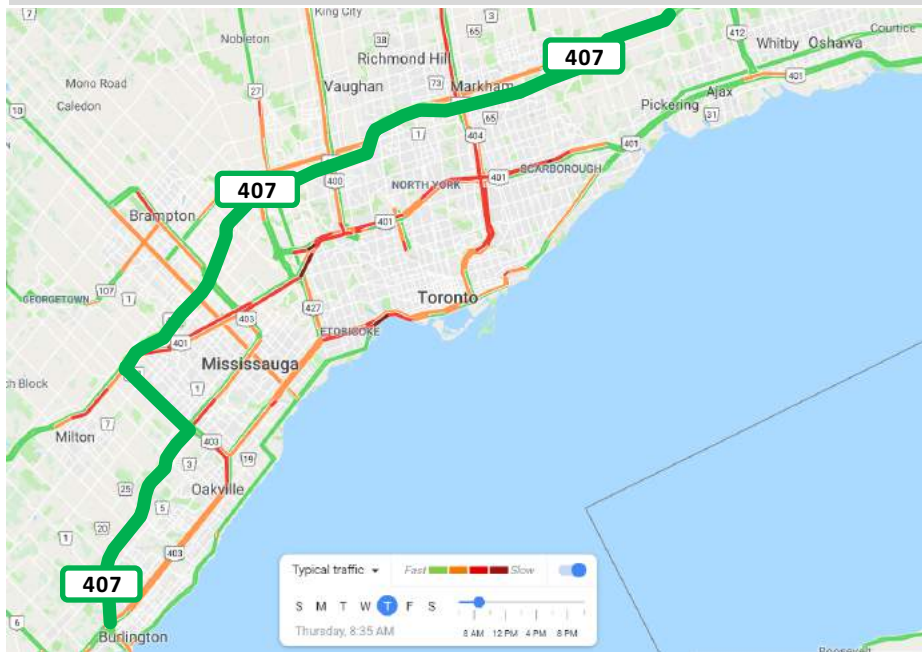
- | | | | | | | |
|---|--|--|---|--|--|---|
| <p>W1-W3
One additional lane in each direction</p> | <p>C1
One additional lane in each direction</p> | <p>C2
One additional lane in each direction</p> | <p>C3-C6
Maximum lane capacity reached</p> | <p>C7
One additional lane in each direction</p> | <p>E1
One additional lane in each direction</p> | <p>E2
Two additional lanes in each direction</p> |
|---|--|--|---|--|--|---|

2020 Toll Rates

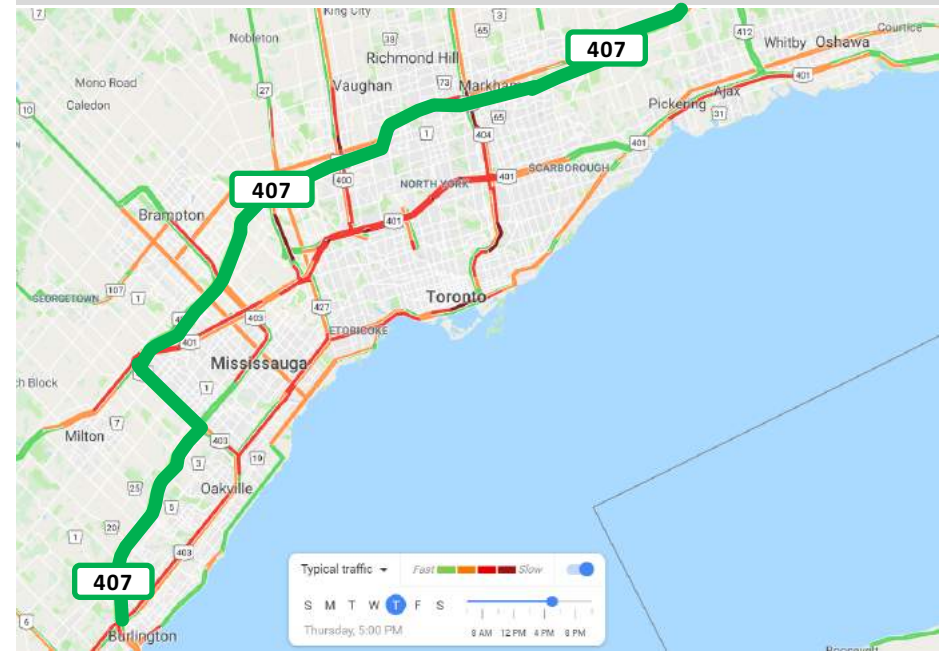


GTHA Traffic Conditions

GTA Major Highways Typical Traffic AM (8 AM)



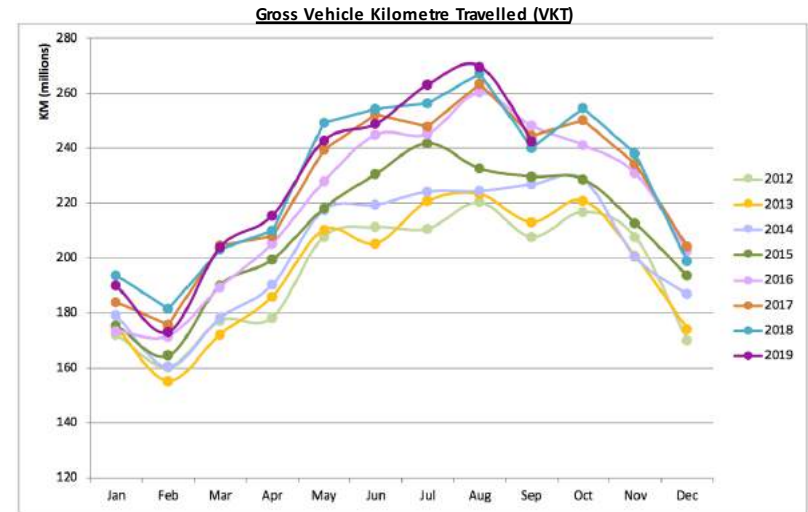
GTA Major Highways Typical Traffic PM (5 PM)



Seasonal Toll Rates – Effective February 1, 2020



- 407 ETR is aligning its pricing structure with seasonal traffic patterns.
- This means that drivers will pay less per kilometre in the **spring** and **winter** when traffic is lower compared to the **summer** when the highway is busiest.
- Charges and fees, including the Trip Toll Charge, Camera Charges, Transponder Lease Fee and other account fees will **not** increase and remain frozen at 2019 levels.

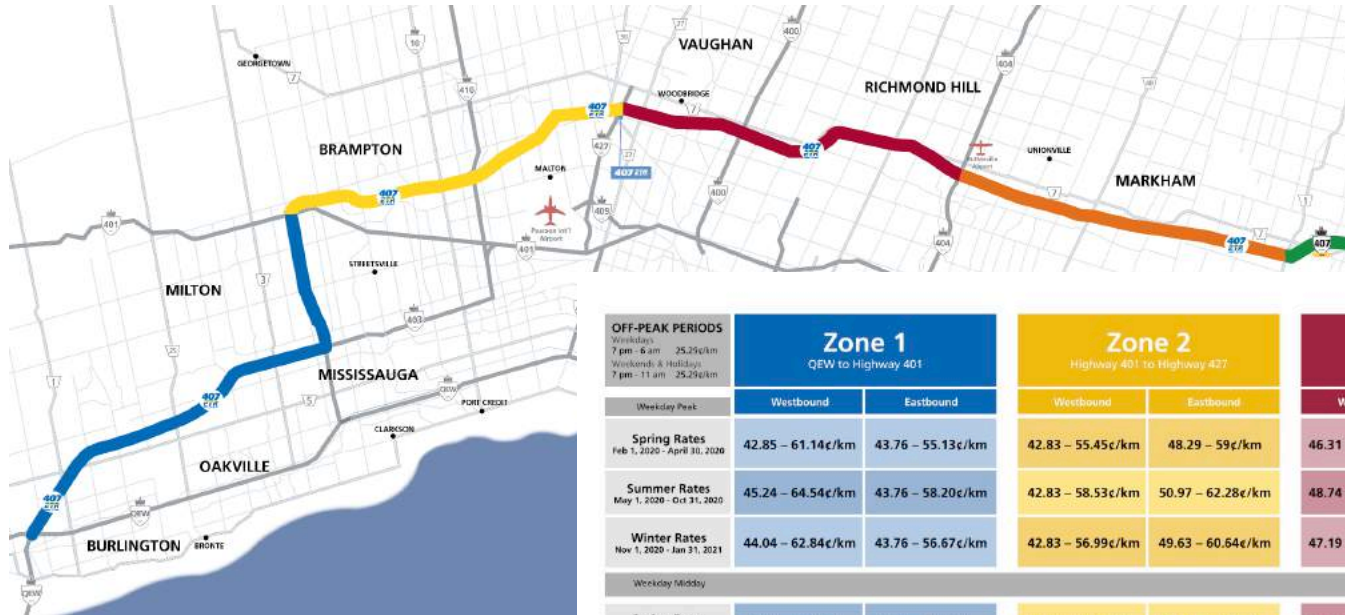


<https://www.407etr.com/en/highway/corporate/usage-statistics.html>

Quick Facts

- ✓ Summer traffic has been increasing and is up to 25% busier than spring and winter.
- ✓ In June 2019, a new one-day record was set for number of trips on the highway.
- ✓ 407 ETR has continued to add new lanes to manage traffic demand. By the end of summer 2020, almost 90% of the highway will be at its maximum number of lanes.
- ✓ Higher toll rates during higher demand months help to manage traffic in order to ensure a consistently reliable congestion-free trip.
- ✓ We're committed to preserving the exceptional 407 ETR experience that drivers want and have enjoyed over the last 20 years.

2020 Toll Rates



\$6.96
2013 average revenue per trip

\$10.86
2018 average revenue per trip

OFF-PEAK PERIODS Weekdays 7 pm - 6 am 25.29¢/km Weekends & Holidays 7 pm - 11 am 25.29¢/km	Zone 1 QEW to Highway 401		Zone 2 Highway 401 to Highway 427		Zone 3 Highway 427 to Highway 404		Zone 4 Highway 404 to Brock Road	
	Westbound	Eastbound	Westbound	Eastbound	Westbound	Eastbound	Westbound	Eastbound
Weekday Peak								
Spring Rates Feb 1, 2020 - April 30, 2020	42.85 - 61.14¢/km	43.76 - 55.13¢/km	42.83 - 55.45¢/km	48.29 - 59¢/km	46.31 - 58.99¢/km	47.43 - 62.24¢/km	43.62 - 54.93¢/km	42.04 - 58.48¢/km
Summer Rates May 1, 2020 - Oct 31, 2020	45.24 - 64.54¢/km	43.76 - 58.20¢/km	42.83 - 58.53¢/km	50.97 - 62.28¢/km	48.74 - 62.27¢/km	50.07 - 65.70¢/km	44.86 - 57.98¢/km	44.38 - 61.73¢/km
Winter Rates Nov 1, 2020 - Jan 31, 2021	44.04 - 62.84¢/km	43.76 - 56.67¢/km	42.83 - 56.99¢/km	49.63 - 60.64¢/km	47.19 - 60.63¢/km	48.75 - 63.97¢/km	44.83 - 56.45¢/km	43.21 - 60.11¢/km
Weekday Midday								
Spring Rates Feb 1, 2020 - April 30, 2020	39.07 - 51.93¢/km	39.07 - 44.04¢/km	39.07 - 50.55¢/km	40.17 - 48.98¢/km	40.17 - 51.01¢/km	40.90 - 51.92¢/km	39.07 - 43.62¢/km	38.47 - 48.61¢/km
Summer Rates May 1, 2020 - Oct 31, 2020	41.25 - 54.81¢/km	41.25 - 46.49¢/km	41.25 - 53.96¢/km	42.40 - 51.70¢/km	42.40 - 53.84¢/km	43.17 - 54.80¢/km	41.25 - 46.04¢/km	41.25 - 51.31¢/km
Winter Rates Nov 1, 2020 - Jan 31, 2021	40.16 - 53.37¢/km	40.16 - 45.27¢/km	40.16 - 51.96¢/km	41.28 - 50.34¢/km	41.28 - 52.43¢/km	42.04 - 53.36¢/km	40.16 - 44.83¢/km	40.16 - 49.96¢/km
Weekend & Holidays 11 am - 7 pm								
Spring Rates Feb 1, 2020 - April 30, 2020	34.63¢/km	35.96¢/km	35.96¢/km	35.96¢/km	35.96¢/km	35.96¢/km	34.63¢/km	34.63¢/km
Summer Rates May 1, 2020 - Oct 31, 2020	37.96¢/km	37.96¢/km	37.96¢/km	37.96¢/km	37.96¢/km	37.96¢/km	34.63¢/km	34.63¢/km
Winter Rates Nov 1, 2020 - Jan 31, 2021	34.63¢/km	36.96¢/km	35.83¢/km	36.96¢/km	36.96¢/km	36.96¢/km	34.63¢/km	34.63¢/km

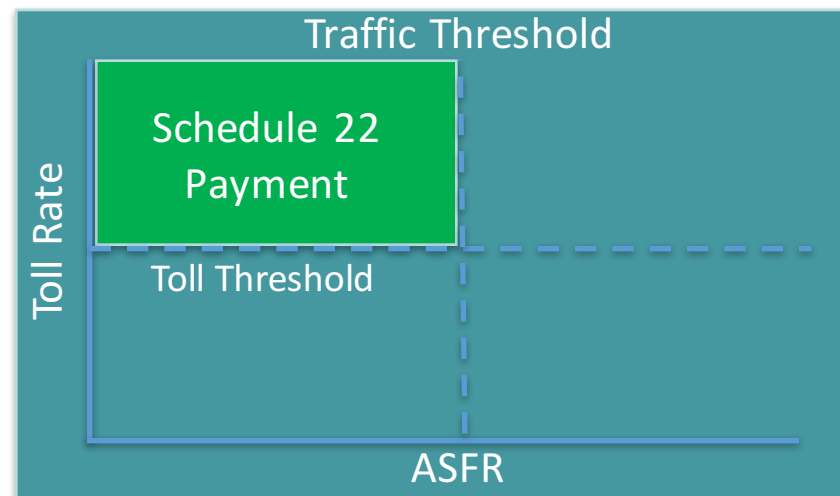
Concession and Ground Lease Agreement – Schedule 22 Payments

■ Average Segment Flow Rate (ASFR) and Traffic Thresholds

- Schedule 22 includes the concept of the Schedule 22 Payment to ensure that traffic relief in the corridor is being provided.
- ASFR is calculated based on the traffic in the peak hours of the busiest 60% of workdays in the year
- 407 ETR's traffic levels are assessed against an annual minimum traffic threshold for each of 24 segments of the highway, which escalate annually up to a prescribed lane capacity.
- A Schedule 22 Payment may be payable for a particular segment if:
 1. Toll Rate > Toll Threshold (toll rate overage) and
 2. Average Segment Flow Rate (ASFR) < Traffic Threshold (traffic shortfall)

■ Schedule 22 Payment

- While annual traffic growth target was achieved in nearly all segments in 2019, one segment was not.
- For 2019, 407 ETR will incur a Schedule 22 Payment, to be calculated and payable in 2020.
- A Schedule 22 Payment to the Province by 407 ETR of \$28,000 was previously made for 2003.



Schedule 22 Payment Calculation

- 2 times the percentage that the ASFR is below the TT times the total user fees generated by the segment

Example Calculation:

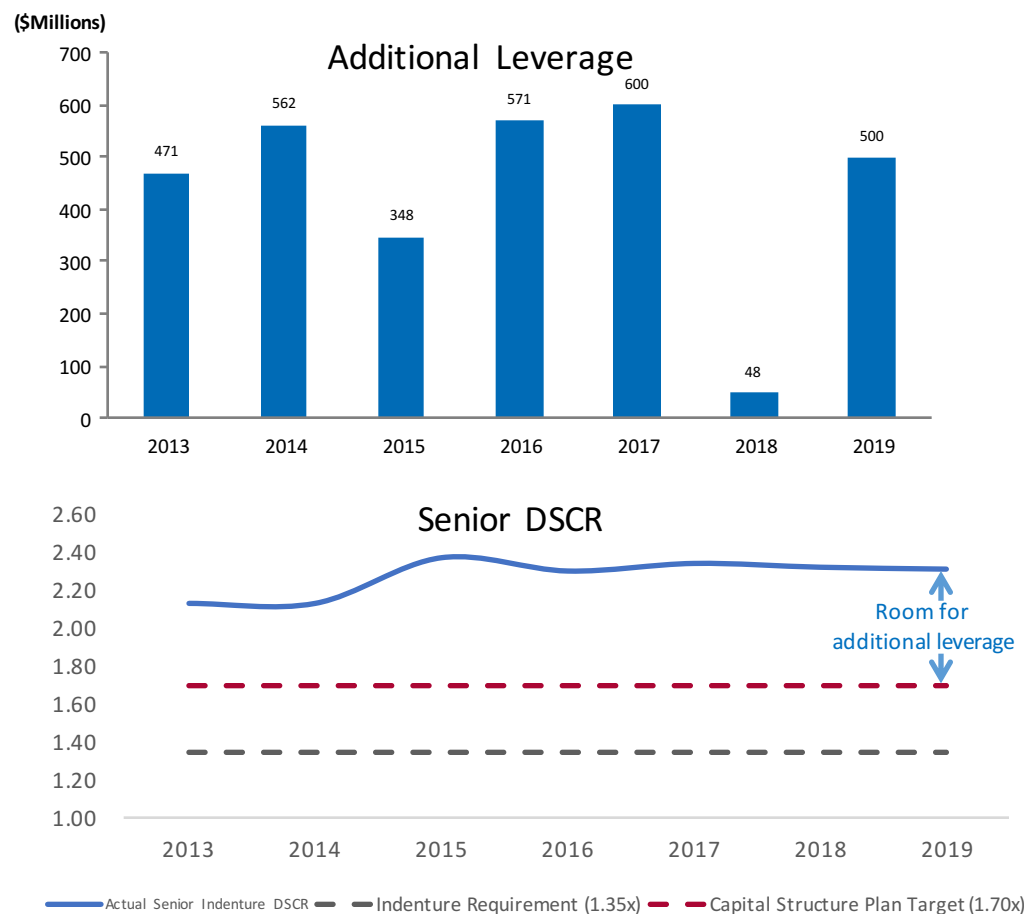
- ASFR/TT of 0.990 (i.e. 1.0% below Traffic Threshold)
- Segment total user fees of \$100 M
- Schedule 22 Payment of $2 \times 1\% \times \$100 \text{ M} = \2 M

Capital Structure Plan



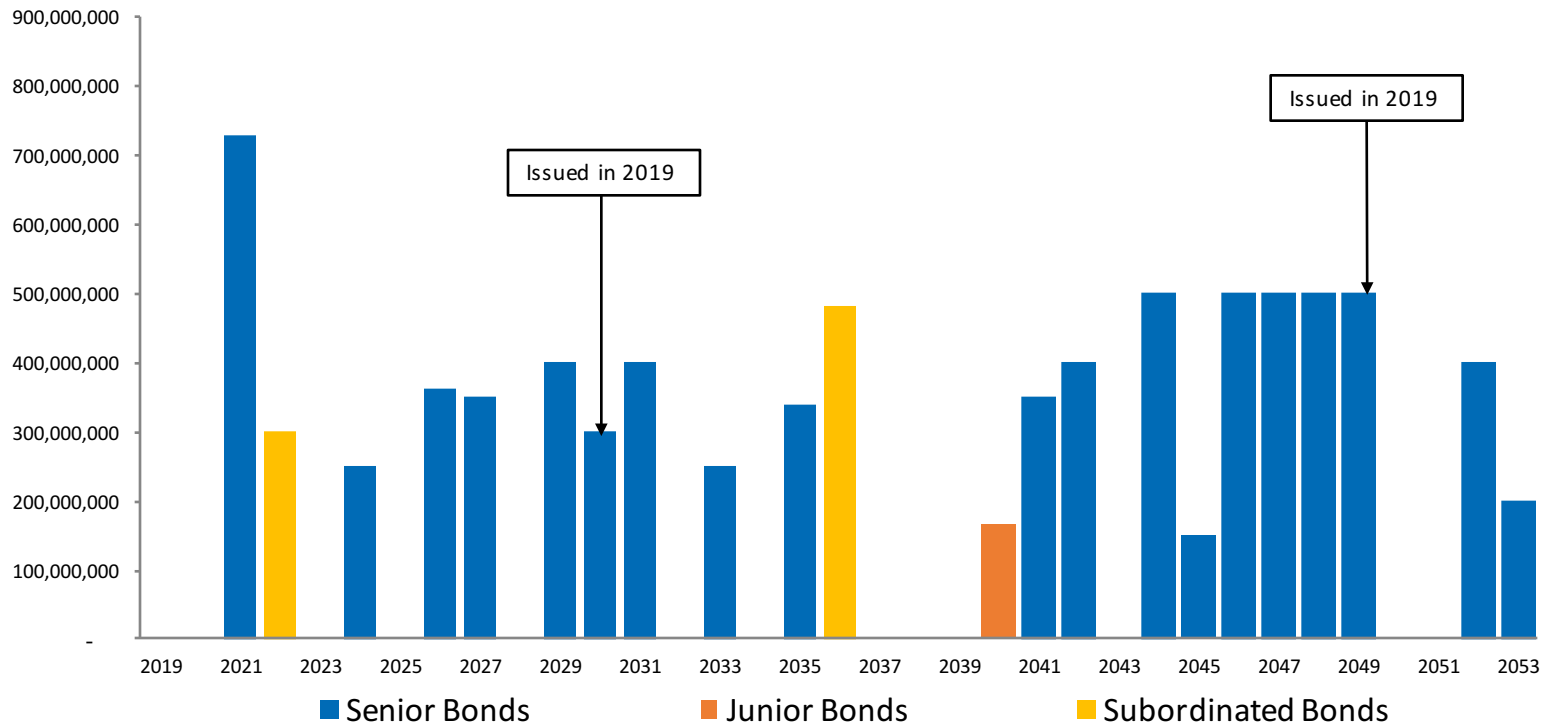
Capital Structure Plan

- Committed to maintaining existing credit ratings: “A” for Senior bonds, “A (low)” for Junior bonds, and “BBB” for Subordinated bonds.
- Continue to increase the leverage of the highway asset
- Increasing EBITDA has resulted in deleveraging. Minimize deleveraging by gradually increasing additional leverage.
 - Performance based
 - Reward shareholders
 - Mitigate risk of ratings upgrade
- Debt Service Coverage Ratios:
 - Target senior indenture DSCR: 1.70x; indenture requirement: 1.35x
 - Target senior and junior cash DSCR: 2.00x
- No significant additional leverage issued in 2018 due to a high ending cash balance from operations in 2017 which was used, in part, to fund the Company’s operations, including the 2018 dividends.



Bond Maturity Profile

No more than 20% total debt maturing during any 24-month period



Credit Ratings

Senior/Junior/Subordinated Bonds A/A- (low)/BBB, Stable Trend

December 12, 2019

- “The ratings are supported by the solid long-term economic fundamentals of the catchment area and 407’s sound cash flow generation and good operating efficiency but are tempered by the Company’s sizable debt burden, leverage intentions, and constraints on future capacity expansions.”
- “For the next three years till 2023, the Company plans to incur incremental leverage of approximately \$700 million per year, notably higher than the previous expectation of \$500 million per year.”
- “DBRS Morningstar believes that the leverage intentions will not have an impact on the debt ratings, provided that the Company manages its dividend payouts and debt levels in accordance with the prevailing economic outlook and with its current operating conditions in mind.”



Senior/Junior/Subordinated Bonds A/A-/BBB, Stable Outlook

June 13, 2019

- “Robust toll revenue performance is driven by the highway’s strategic location, with strong and inelastic demand characteristics and unfettered ability to raise tolls.”
- “We expect rising population and employment in greater Toronto, together with longer travel times on 407’s congested alternatives, will continue to support long-term demand.”
- “We view this toll road to have significant ratings stability, relative to its peers.”
- “Reasonable leverage compared to peers’ and strong financial discipline providing for solid downside resiliencies.”
- “Overall, 407 is rated above peers, reflecting its robust financial and operation performance and lower leverage.”



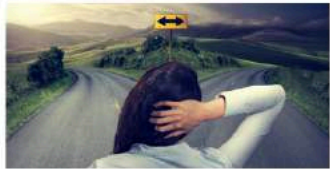
Ongoing Project Initiatives

Data Analytics



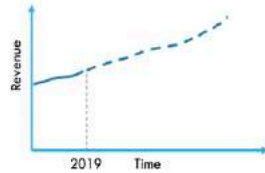
Better Understand Customers

Leveraging deeper insights into the customer to understand value drivers and willingness to pay



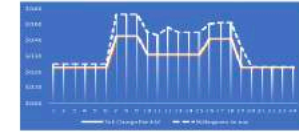
Customer Choice

Identifying customers who choose vs. do not choose and understanding their motivations.



Multiyear Pricing Model

Model that allows us to understand how long can we continue to raise toll rates in future.



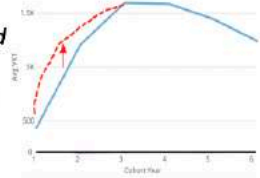
Toll Allocation Model 2.0

Allocates Toll Rates by Time, Direction and Segment to Maximize Potential Revenue.

DATA ANALYTICS

Understanding Customer Lifecycle

Identifying customers who have the habits and profile of our best customers to accelerate frequency of usage.



Cohort Behavior Analysis

TREND



Budget Conscious: This group of consumers is likely price sensitive. They may make their purchase decision based on the price and are looking for value for money. They use toll routes "only when necessary" and are scattered through the GTA.



Up the Ladder: A group of growing consumers with higher income, education and real estate holdings, seeking flexibility of trips. Heavily represented by the northern area of Toronto such as York Region and Richmond Hill. Price elasticity likely to be low.



Frequent Users: Have a strong need for Speed / Time Savings. They have stable and mature usages of 407. The price elasticity is very low for these customers.

Market Share

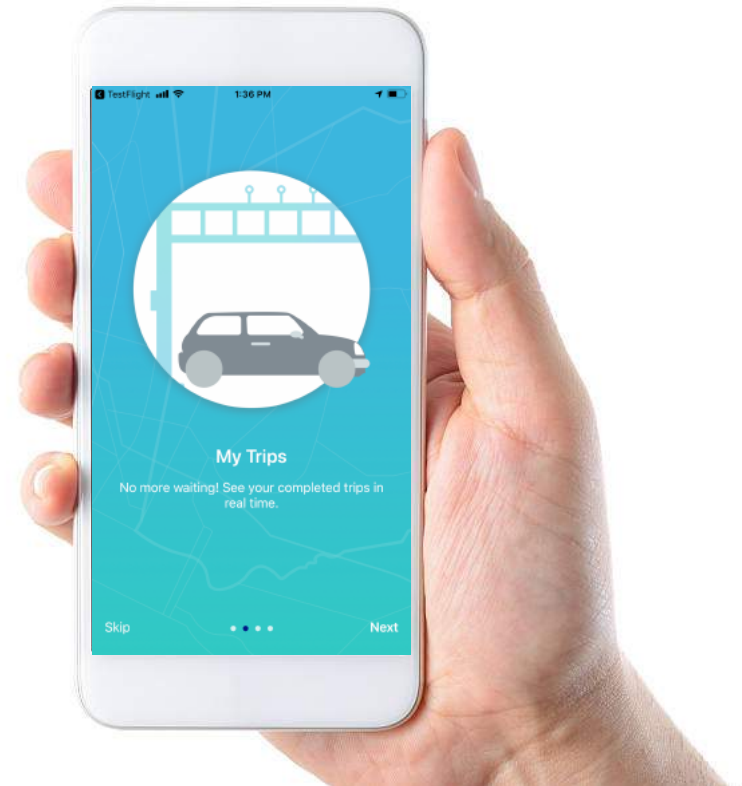
Understanding alternative routes by O-D to find areas of competitive advantage and opportunity.



The Mobile App

Features:

- Value dashboard
- Trip planner
- Voice interaction
- Payment
- Real time transponder trips
- Highway incident and construction alerts
- Roadside Assistance



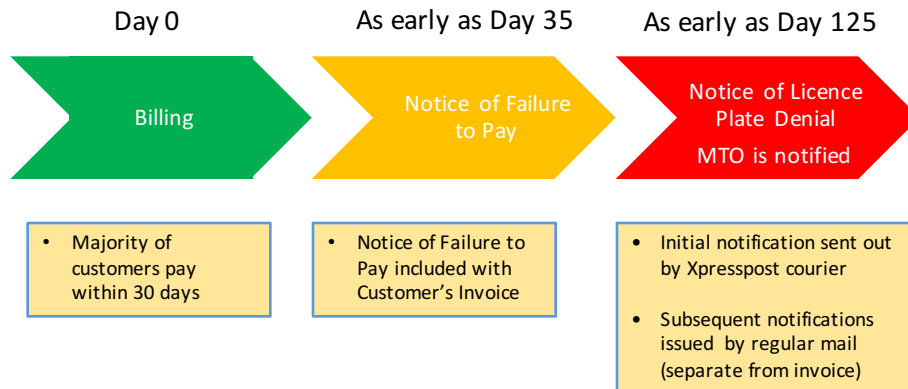
Operations



Licence Plate Denial

When a customer does not pay their bill within a prescribed period of time, the Ontario Ministry of Transportation will not allow the person to renew the licence plate sticker required by law

- Targeted at people who refuse to pay their bills
- Necessary because there are no toll booths or barriers
- Cannot restrict use, cut off service, etc. like other companies
- Used by Ontario Government before the sale, key part of sale agreement

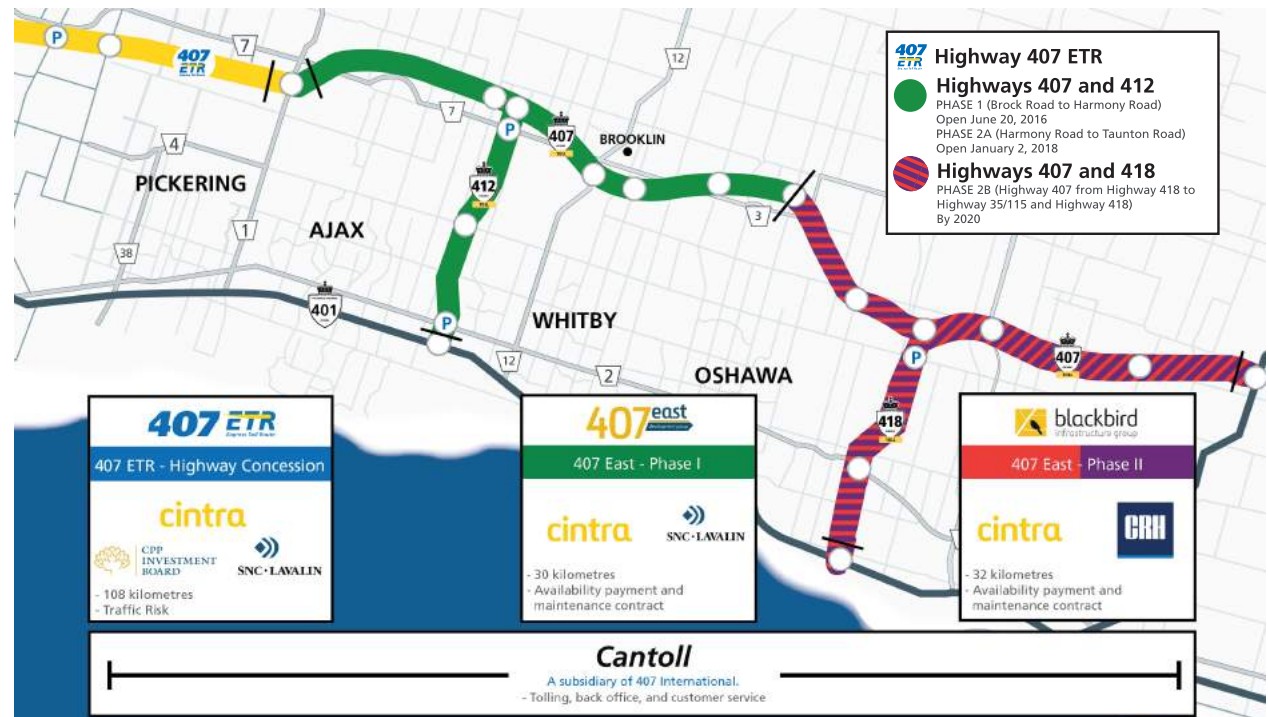


NOT UNIQUE TO ONTARIO
SIMILAR PLATE DENIAL SYSTEMS IN PLACE IN OTHER JURISDICTIONS TO MAINTAIN OPEN ACCESS ROAD AND FAIRNESS TO ALL DRIVERS.

407 ETR as a Service Provider to MTO

407 ETR as a Tolling Leader

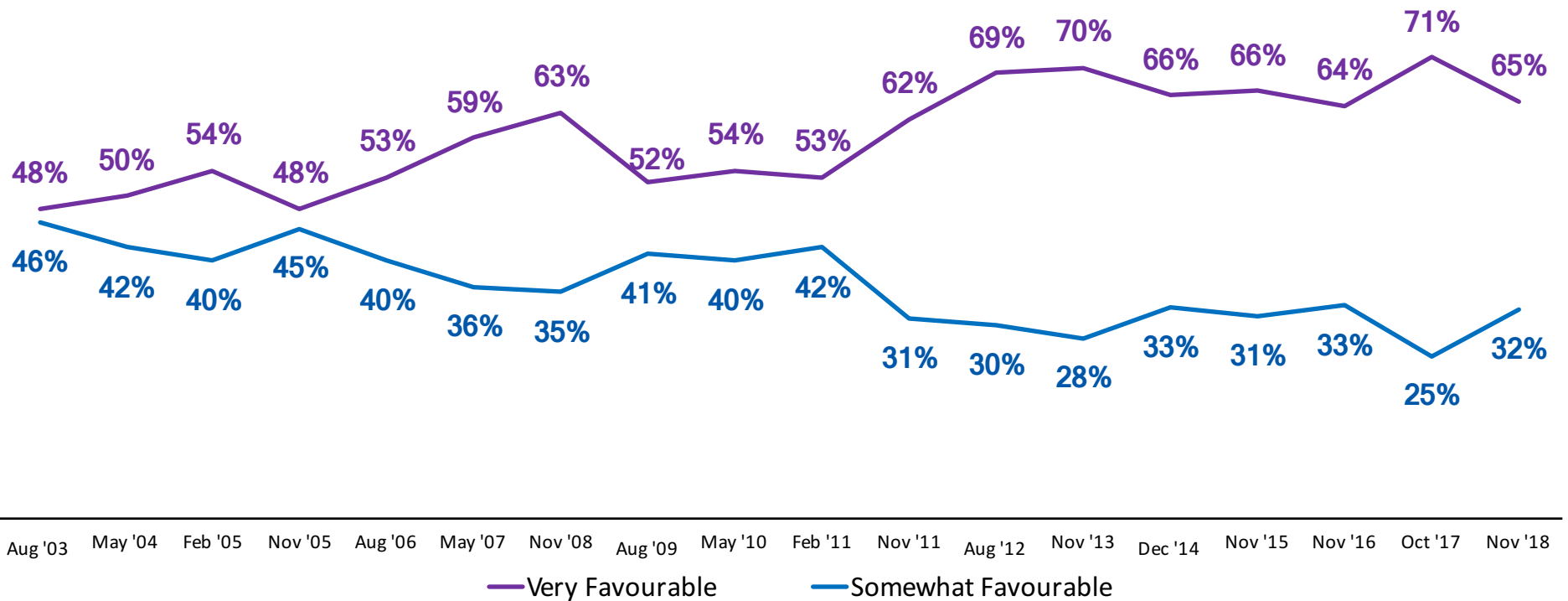
- Government of Ontario has contracted 407 ETR to provide transponder lease management, billing, bilingual call centre and customer service, collections and the website for the new highways
- The Province sets and regulates tolls on the new highways and retains the revenue
- Experience is seamless for drivers – both on and off the road
- 407 ETR stands ready and prepared to offer these services to the Government of Ontario in future tolling projects



Product: Over 90% satisfaction with road itself continues



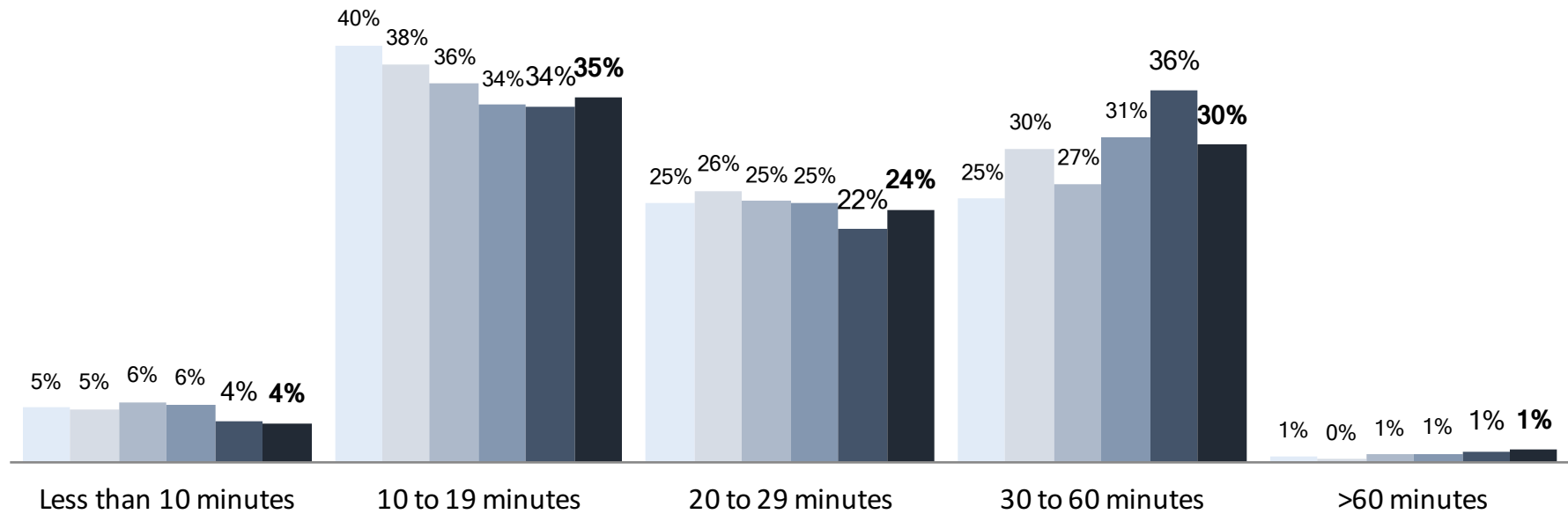
Thinking about Highway 407 ETR, would you say that your impression of the road itself is very favourable or somewhat favourable?
 [asked of all respondents; n=750]



NOTE: "Neither", "Unfavourable", "Don't know", and "Refused" not shown.

Minutes Saved: Over half of drivers report saving between 20 and 60 minutes per trip

Q Thinking about each time you use 407 ETR, on average how many minutes do you save on each trip compared to using your primary alternative?
[asked only of those who specified an alternative option to taking 407 ETR; n=719]



NOTE: "Don't know/No time saved" not shown

Nov '13 Dec '14 Nov '15 Nov '16 Oct '17 Nov '18


Community Involvement



407 ETR in the Community




Sponsorships, Donations and Community Involvement

 Youth sport team sponsorships



 Hospitals and rehabilitation




 Supporting communities along the corridor



 Safety initiatives



 Traffic and transportation initiatives



Other Partnerships



Community Engagement



Contacts

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407 ETR
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