

RBC Capital Markets  
2019 Corporate & Energy Infrastructure Conference  
**407 International Inc.**

September 19, 2019

## 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.

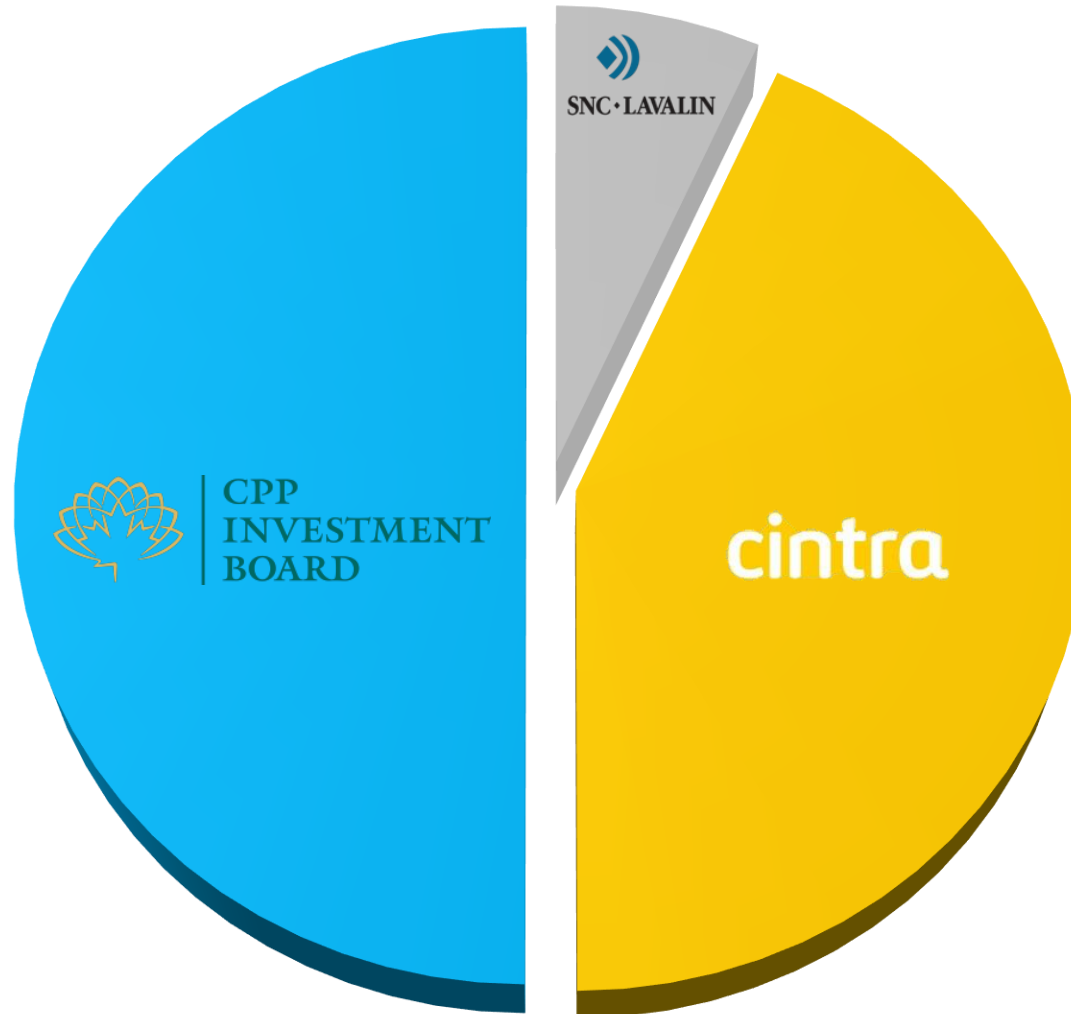
Shareholders



# 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%

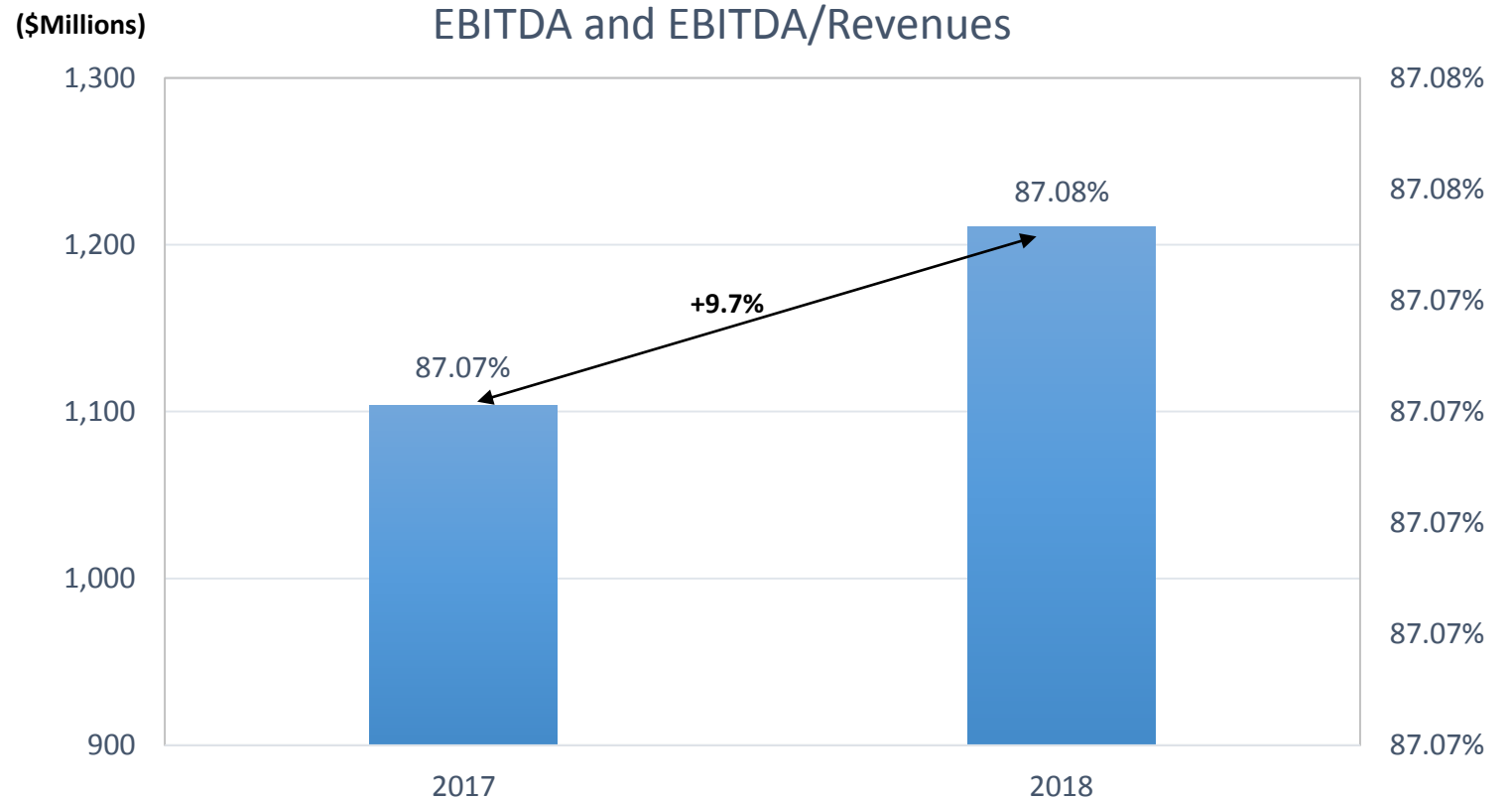
\$ millions		2018	2017	% Variance
Financials	Revenues	1,390.3	1,267.7	9.7%
	Operating Expenses	179.7	163.9	9.6%
	EBITDA	1,210.6	1,103.8	9.7%
	Net Income	539.0	470.1	14.7%
	Cash Balance (December 31)	308.1	763.1	-59.6%

## 2018 EBITDA Highlights

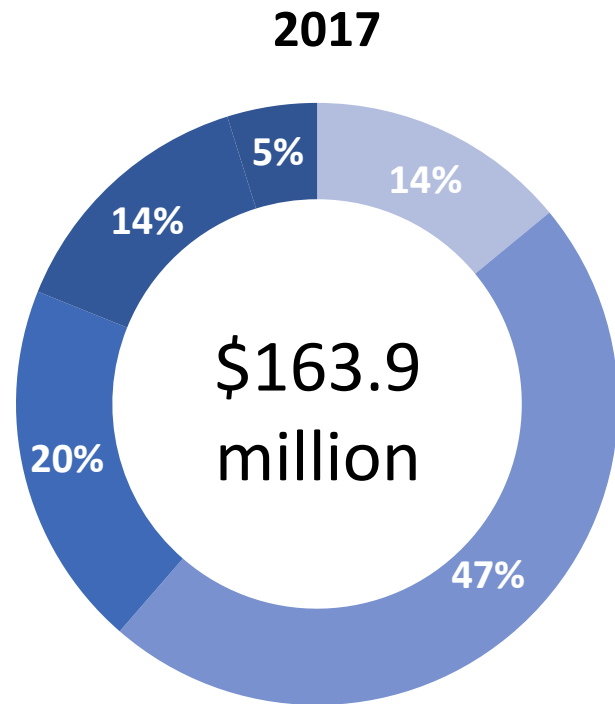
**+ \$106.8 million**

**9.7%**

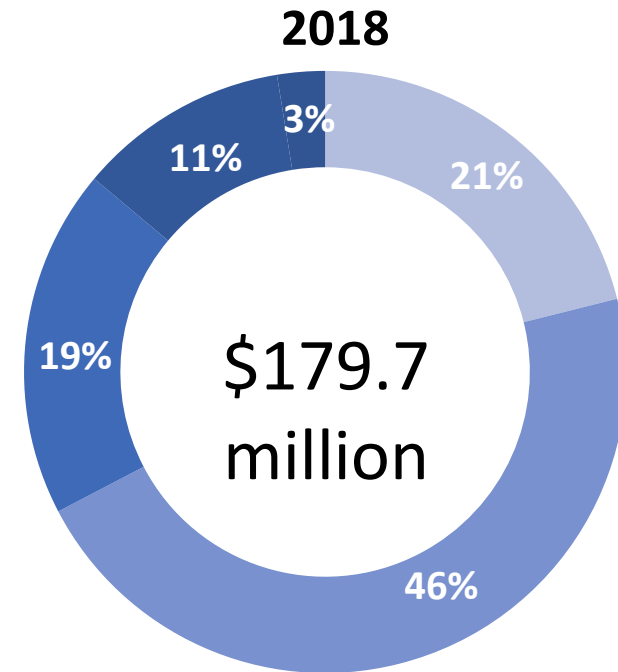
increase to EBITDA



# 2018 Operating Expenses

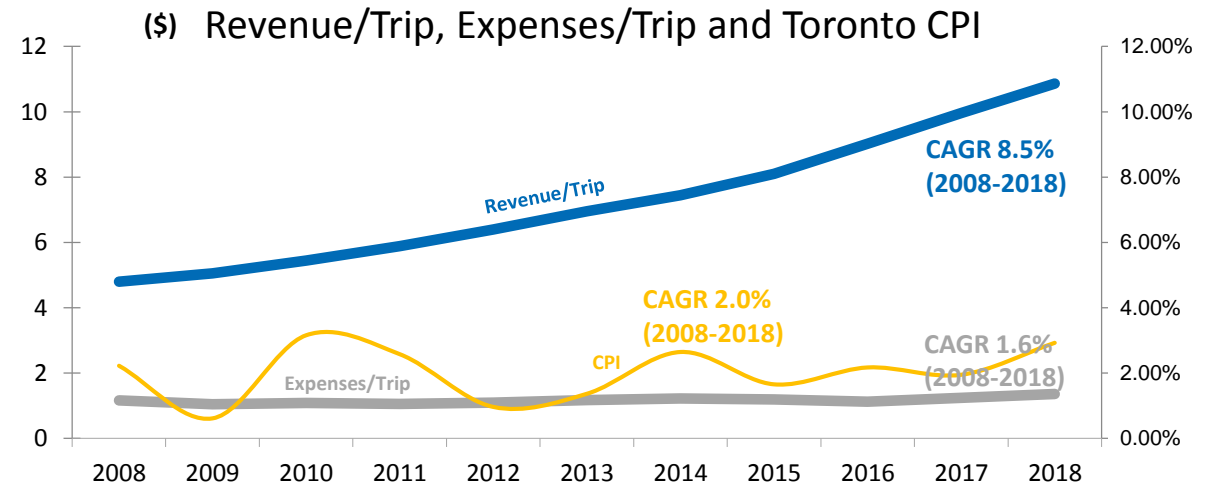
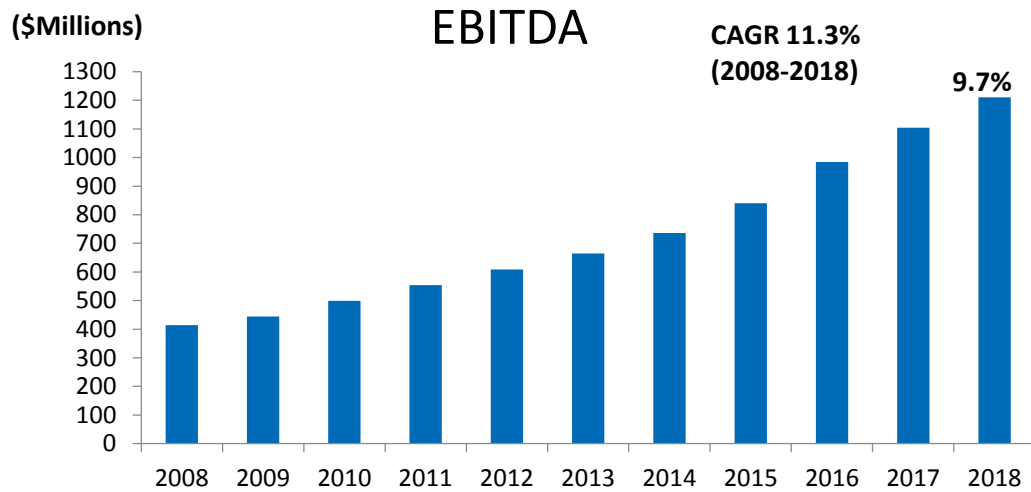
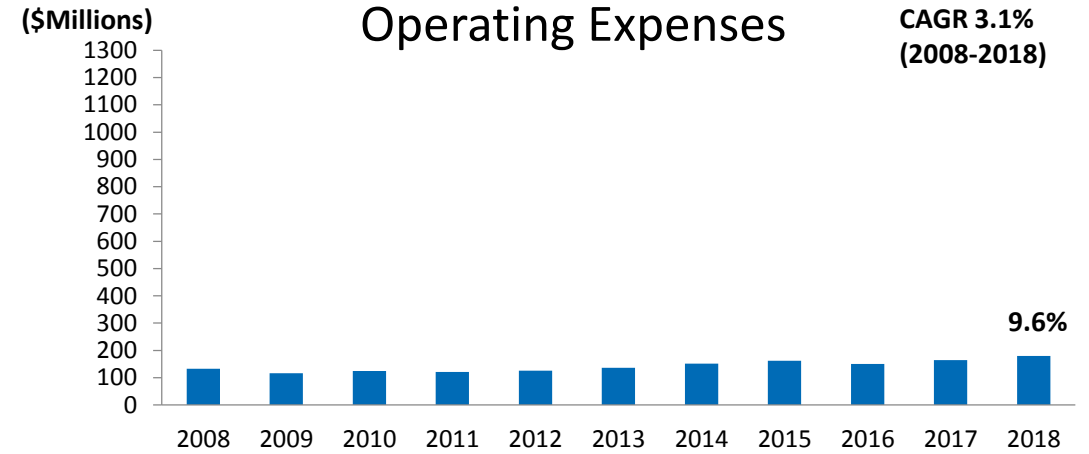
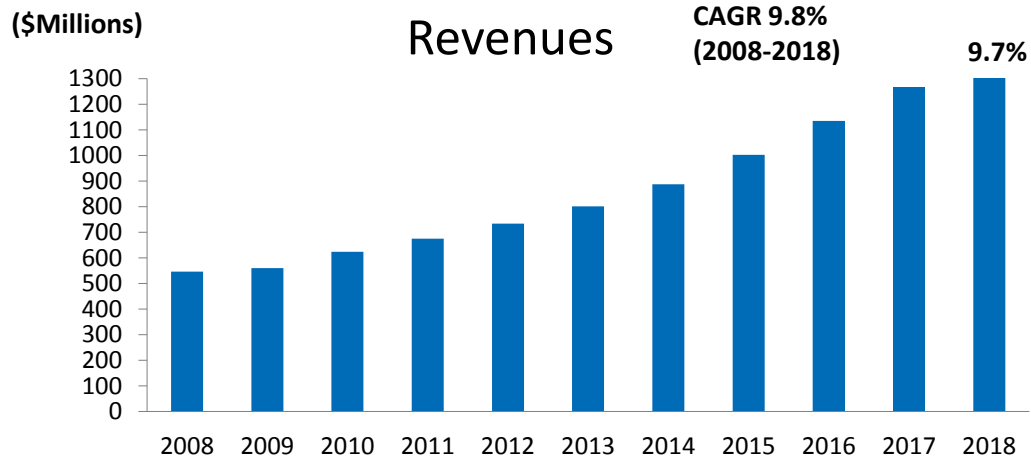


- Systems Operations
- Customer Operations
- Highway Operations
- General & Administration
- Contract





# Financial Performance



# Traffic Performance

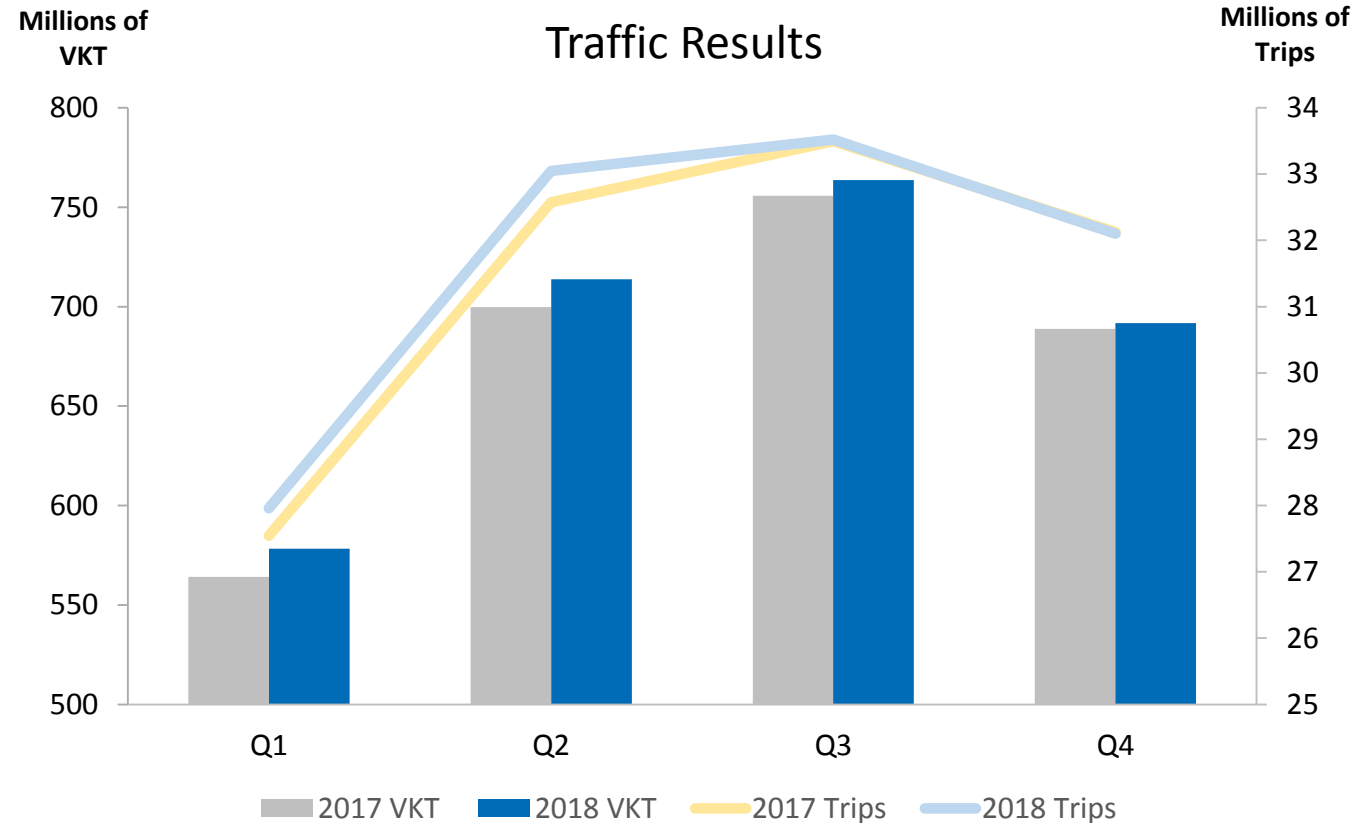


# 2018 Traffic Performance

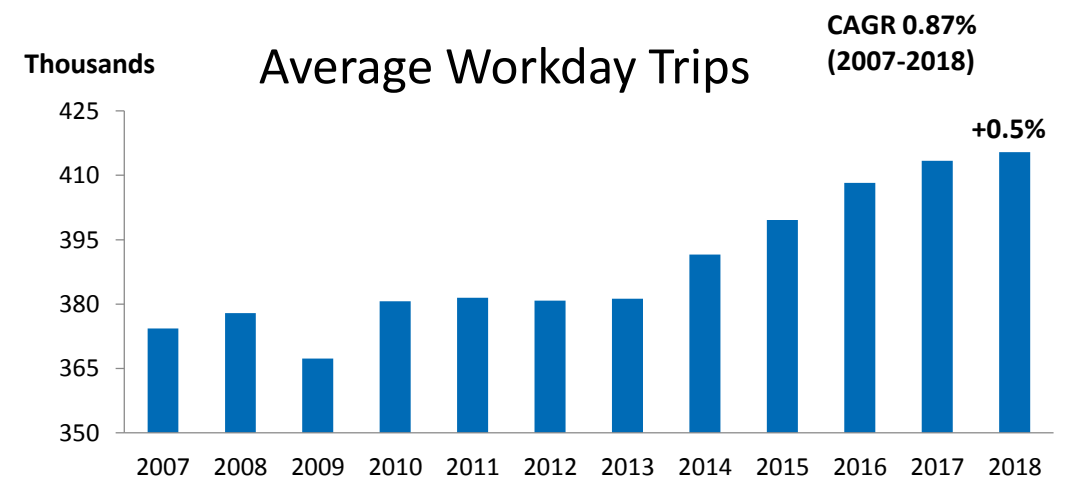
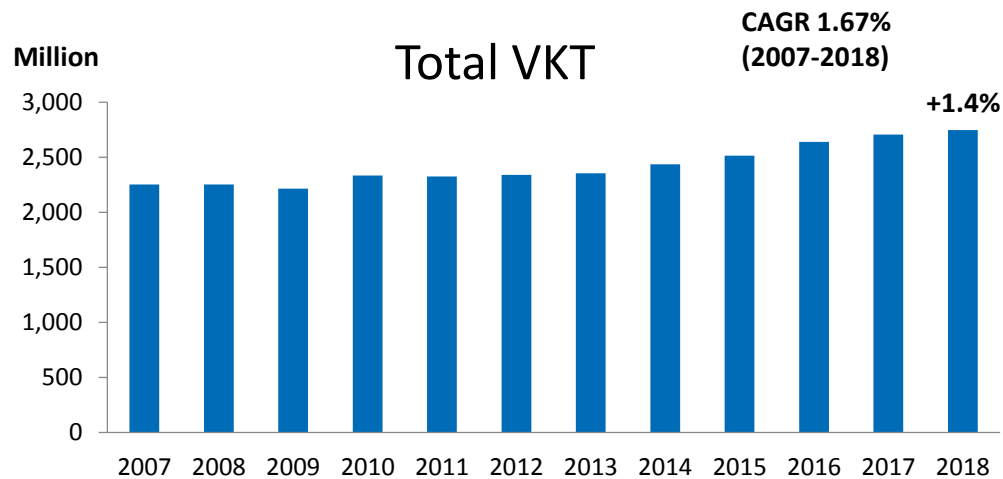
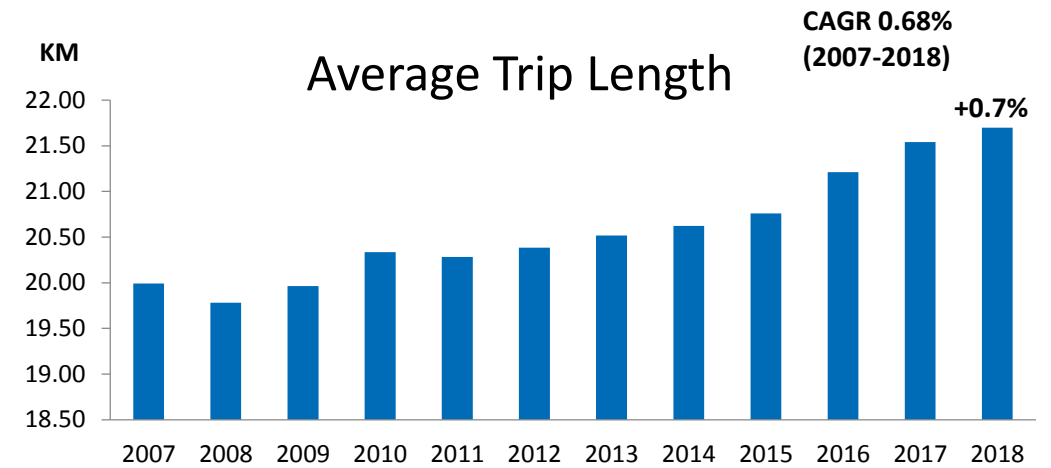
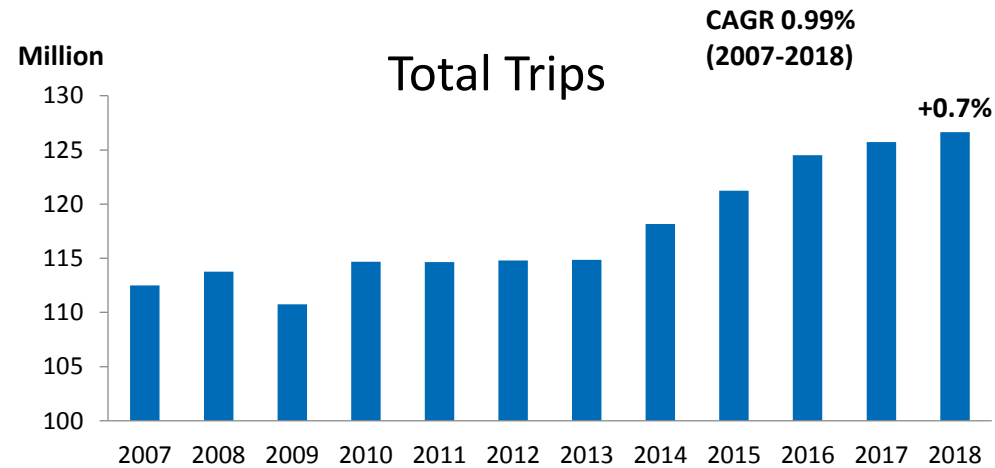
**1.4%**  
traffic growth in VKT

**0.7%**  
increase in trips

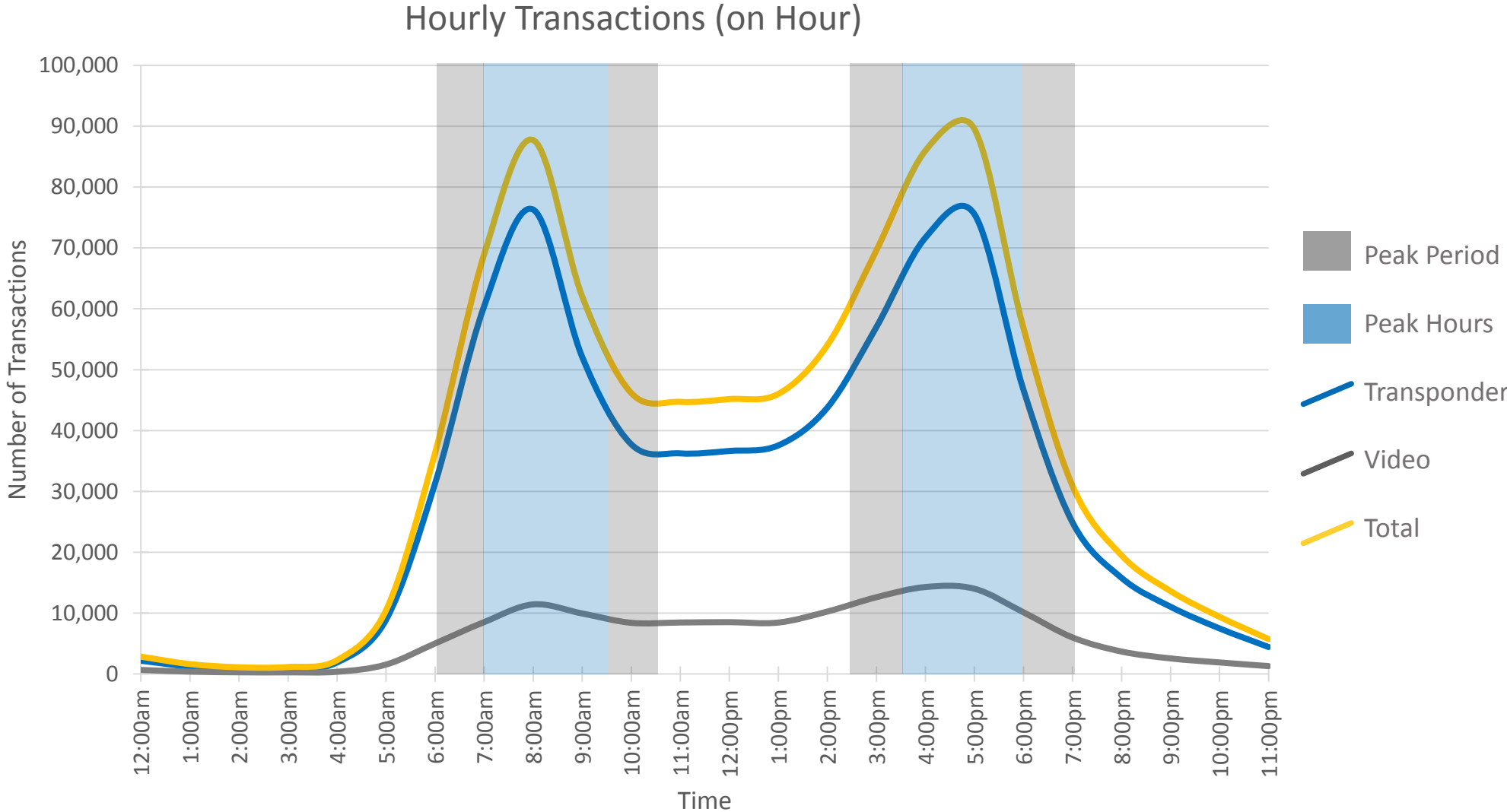
**0.7%**  
increase in average  
trip length



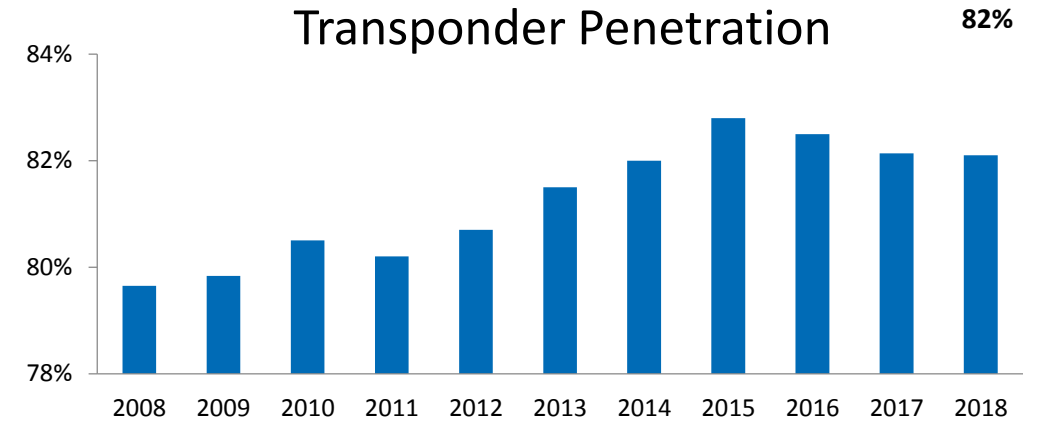
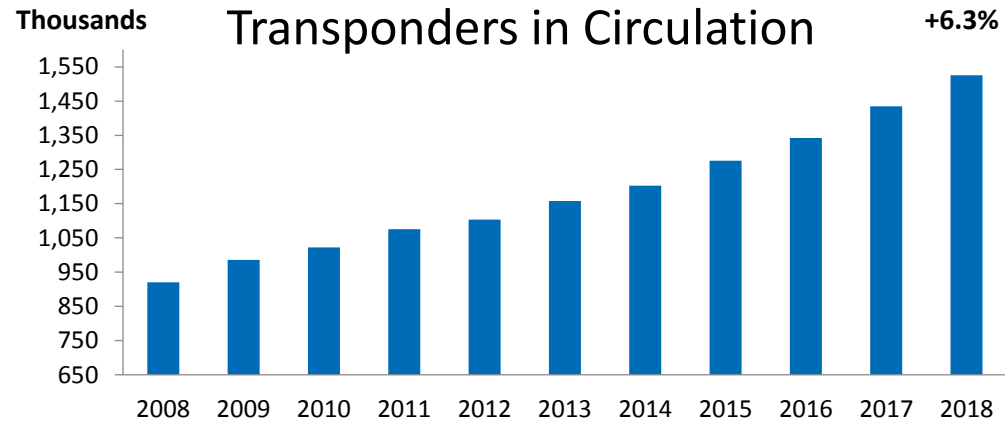
# Traffic Performance



# Typical Workday Traffic Distribution



# Transponder Usage



**1.5 million**  
transponders in  
circulation

Light



Heavy

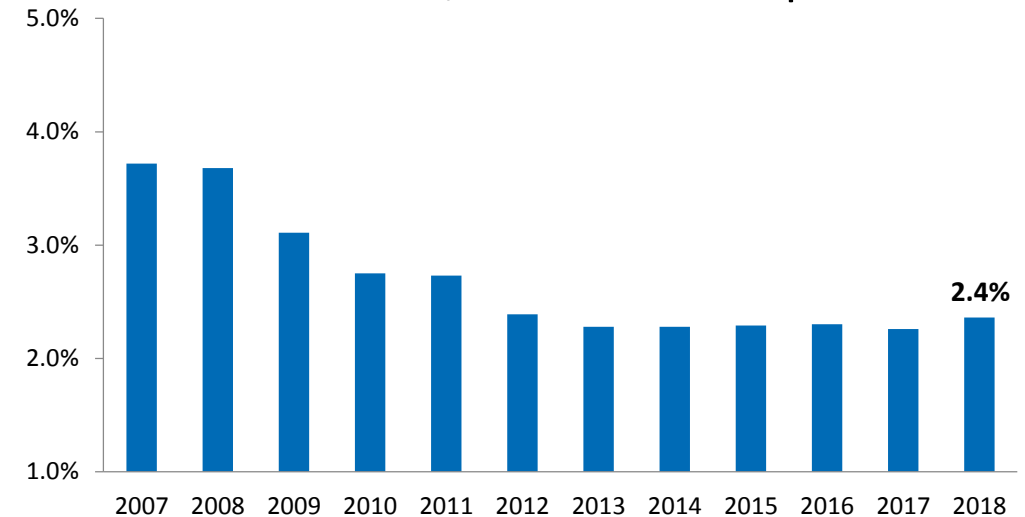


# Unbillable Traffic

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

Unbillable/Unreadable Trips



Construction





# Current and Ultimate Number of Lanes



# Remaining Lane Expansion



2020

**W1-W3**  
One additional lane  
in each direction

**C1**  
One additional lane  
in each direction

**C2**  
One additional lane  
in each direction

**C3-C6**  
Maximum lane  
capacity reached

**C7**  
One additional lane  
in each direction

**E1**  
One additional lane  
in each direction

**E2**  
Two additional lanes  
in each direction

# Operations Yards and Buildings – 2018 Improvements

## New East Patrol Yard



## Rebuild of Steeles Patrol Yard



# 2019 Toll Rates



# 2019 Toll Rates



**\$6.96**  
2013 average revenue per trip

**\$10.86**  
2018 average revenue per trip



Light Vehicle Rates\* for vehicles 5,000 kg or less (cars, minivans and SUVs)

	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	
	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND	EASTBOUND	WESTBOUND
<b>OFF-PEAK</b> 7 pm - 6 am 24.32 ¢/km								
<b>WEEKENDS &amp; HOLIDAYS</b> 11 am - 7 pm 33.30 ¢/km								
<b>PEAK HOURS</b> AM: 7 - 9:30 PM: 3:30 - 6	AM: 51.05 ¢/km PM: 46.39 ¢/km	AM: 45.13 ¢/km PM: 56.61 ¢/km	AM: 52.26 ¢/km PM: 54.63 ¢/km	AM: 47.12 ¢/km PM: 51.34 ¢/km	AM: 52.25 ¢/km PM: 57.63 ¢/km	AM: 50.40 ¢/km PM: 54.62 ¢/km	AM: 44.29 ¢/km PM: 54.15 ¢/km	AM: 50.86 ¢/km PM: 45.89 ¢/km
<b>PEAK PERIOD</b> AM: 6 - 7 & 9:30 - 10:30 PM: 2:30 - 3:30 & 6 - 7	AM: 42.08 ¢/km PM: 40.78 ¢/km	AM: 39.68 ¢/km PM: 48.08 ¢/km	AM: 44.71 ¢/km PM: 45.35 ¢/km	AM: 41.18 ¢/km PM: 46.81 ¢/km	AM: 43.92 ¢/km PM: 48.07 ¢/km	AM: 43.13 ¢/km PM: 47.23 ¢/km	AM: 38.93 ¢/km PM: 45.01 ¢/km	AM: 43.13 ¢/km PM: 40.39 ¢/km
<b>Weekday Midday</b> 10:30 am - 2:30 pm	36.18 ¢/km	36.18 ¢/km	37.19 ¢/km	36.18 ¢/km	37.87 ¢/km	37.19 ¢/km	36.18 ¢/km	36.18 ¢/km

The Heavy Vehicle Rate\*\* for vehicles over 5,000 kg (large trucks and buses) is two times the Light Vehicle Rate.

The Heavy Multiple Unit Vehicle Rate\*\* (tractor trailers) is three times the Light Vehicle Rate.

# 407 ETR Compared to Alternate Routes



# Allocation of Per Km Rates

- ❑ Allocate per-km toll rates to match price increases with operational value:
  - ❑ Allocate Toll Rate increase to each zone/direction cell based on speed advantage value relative to alternative routes
    - ❑ E.g. 407 ETR EB Zone 3 (C4-C6) has the highest speed advantage in the Pm Peak Hour vs. Hwy 401. Higher toll rate increase is applied.

## Allocation Zone/Direction based on Speed Advantage

	EB				WB			
	Zone 1	Zone 2	Zone 3	Zone 4	Zone 1	Zone 2	Zone 3	Zone 4
	W1-C1	C2-C3	C4-C6	C7-E2	W1-C1	C2-C3	C4-C6	C7-E2
AM Peak Hour (7:00-9:30 AM)	Yellow	Orange	Red	Green	Yellow	Orange	Orange	Orange
AM Peak Period (6:00-7:00 and 9:30-10:30 AM)	Yellow	Orange	Red	Green	Yellow	Orange	Orange	Orange
PM Peak Hour (3:30-6:00 PM)	Yellow	Orange	Red	Green	Yellow	Orange	Orange	Orange
PM Peak Period (2:30-3:30 and 6:00-7:00 PM)	Yellow	Orange	Red	Green	Yellow	Orange	Orange	Orange
Workday Midday (10:30 AM - 2:30 PM)	Yellow	Orange	Red	Green	Yellow	Orange	Orange	Orange
Weekend Midday (11:00 AM - 7:00 PM)	Yellow	Orange	Red	Green	Yellow	Orange	Orange	Orange
Off Peak (REST)	Green	Green	Green	Green	Green	Green	Green	Green

	EB				WB			
	Zone 1	Zone 2	Zone 3	Zone 4	Zone 1	Zone 2	Zone 3	Zone 4
	W1-C1	C2-C3	C4-C6	C7-E2	W1-C1	C2-C3	C4-C6	C7-E2
AM Peak Hour (7:00-9:30 AM)	8.4%	12.0%	13.0%	7.0%	7.0%	7.6%	13.0%	10.0%
AM Peak Period (6:00-7:00 and 9:30-10:30 AM)	7.0%	13.0%	12.0%	7.0%	7.0%	7.0%	10.0%	10.0%
PM Peak Hour (3:30-6:00 PM)	7.1%	11.0%	14.0%	11.0%	11.0%	6.2%	14.0%	7.0%
PM Peak Period (2:30-3:30 and 6:00-7:00 PM)	7.0%	10.5%	14.0%	10.7%	13.0%	10.0%	12.0%	7.0%
Workday Midday (10:00 AM - 2:30 PM)	7.0%	10.0%	12.0%	7.0%	7.0%	7.0%	10.0%	7.0%
Weekend Midday (11:00 AM - 7:00 PM)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Off Peak (REST)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

- ❑ The 2019 Per KM Toll Rates reflect the demand by time period and speed differential between zones and achieves the weighted 10% Per KM rate increase.

# Highway Operations





## Highway Operations by the Numbers

**198**  
gantries

**1,218 km**  
of lanes across 108 km

**68 km**  
of concrete pavement (central)

**40 km**  
of asphalt (east and west)

**40**  
interchanges  
(seven 400-series highways)

**212**  
bridges



# 24/7 Control Centre



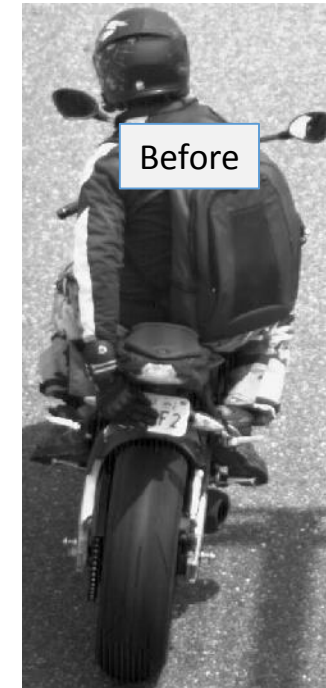
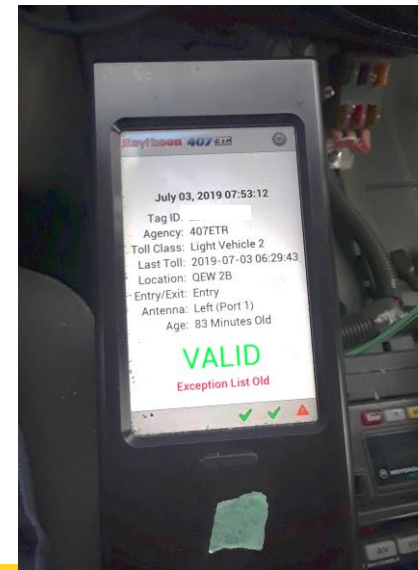
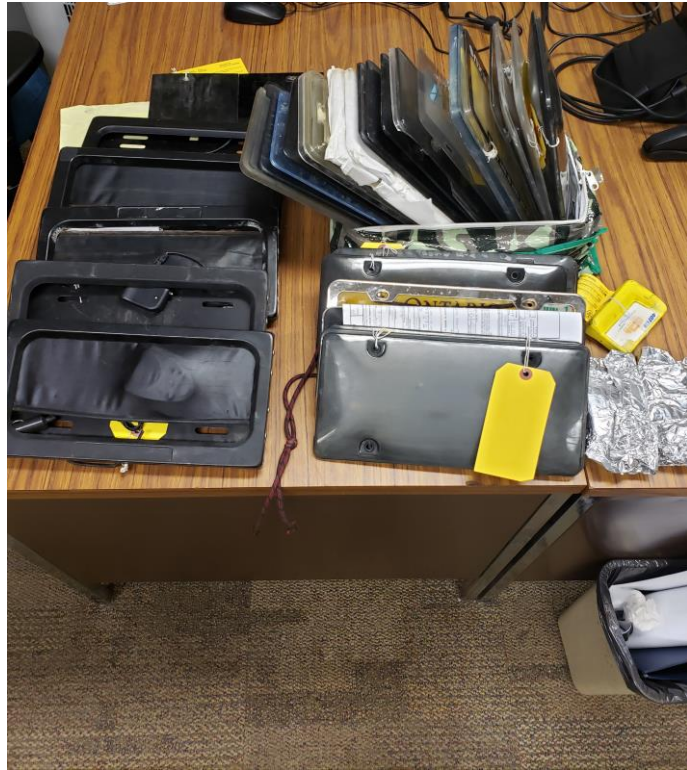
# Highway Safety

407 ETR patrollers assist over 3,000 drivers each year.

- Winter Event Response
- Snow clearing according to Ontario standards
- Road surface maintenance, replacement, rehab
- Bridge inspections



# Toll Enforcement: Change of Behavior Study



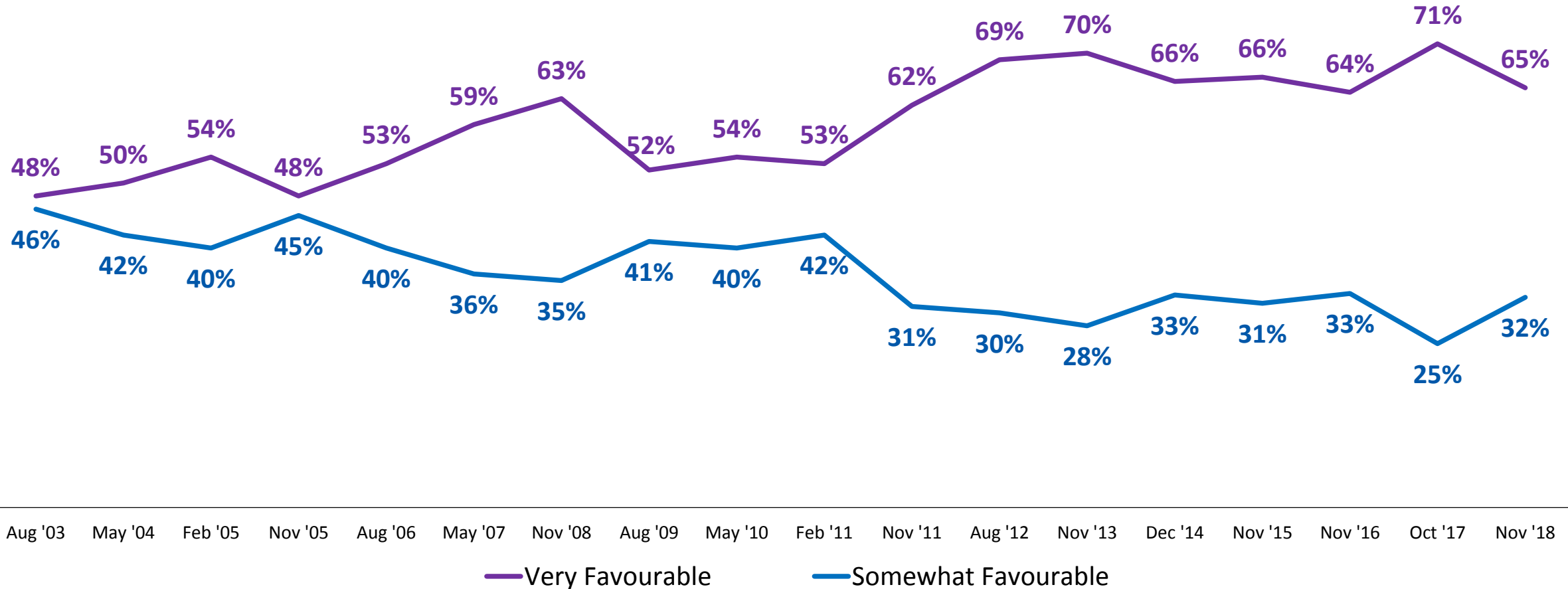
# Customer Satisfaction



# 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]



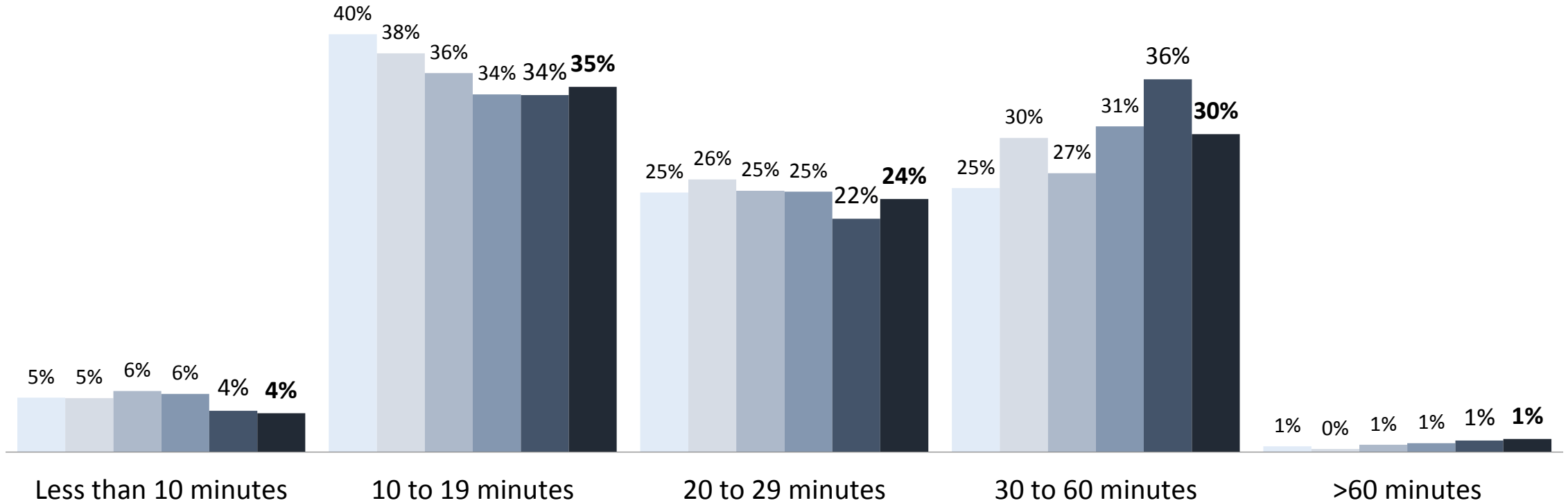
**NOTE:** "Neither", "Unfavourable", "Don't know", and "Refused" not shown.

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



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

Service Provider to MTO

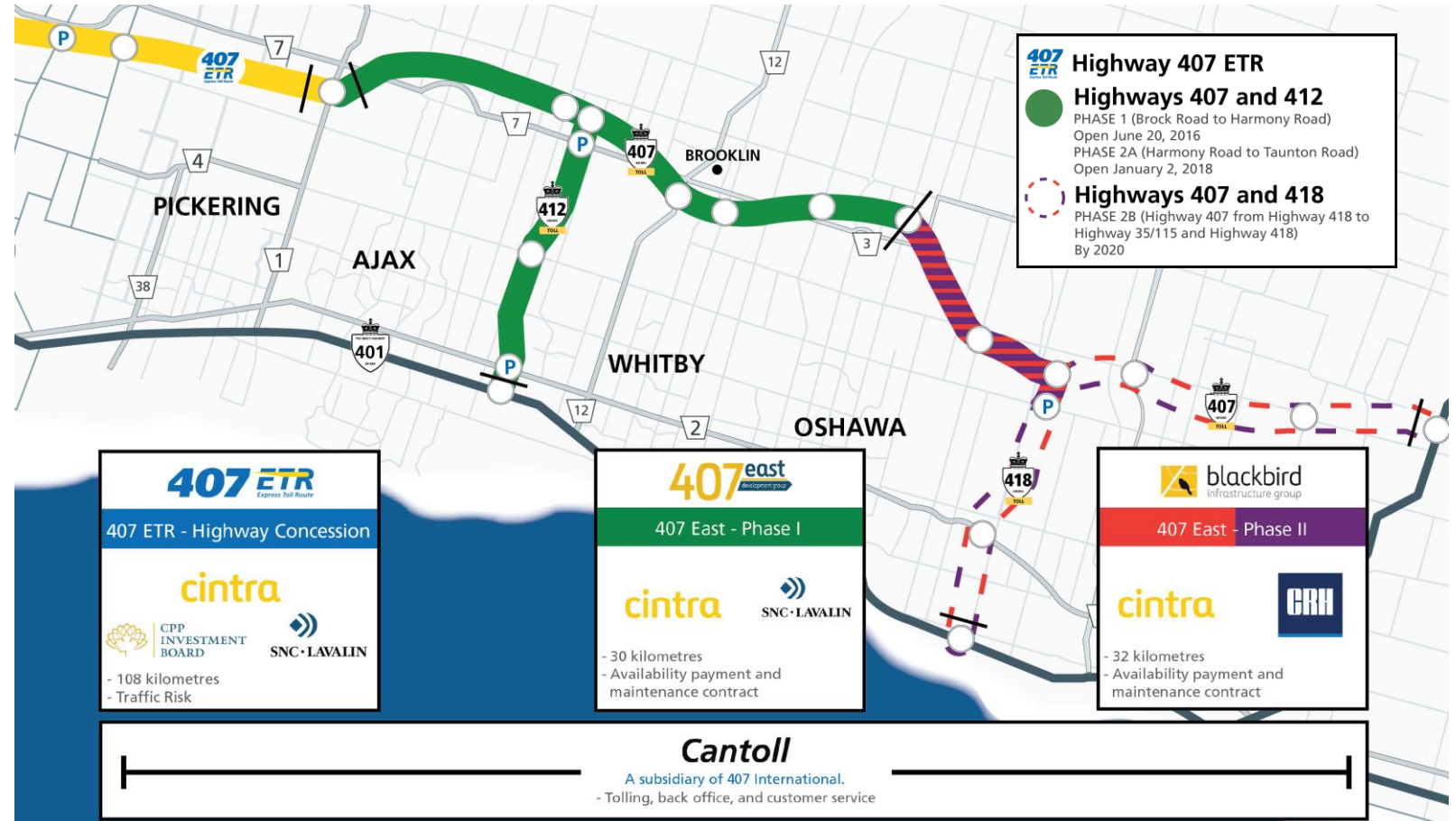




# 407 ETR as a Service Provider to MTO

## 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



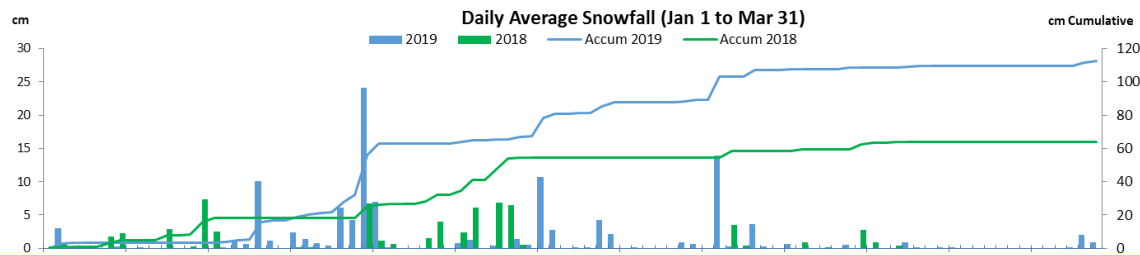
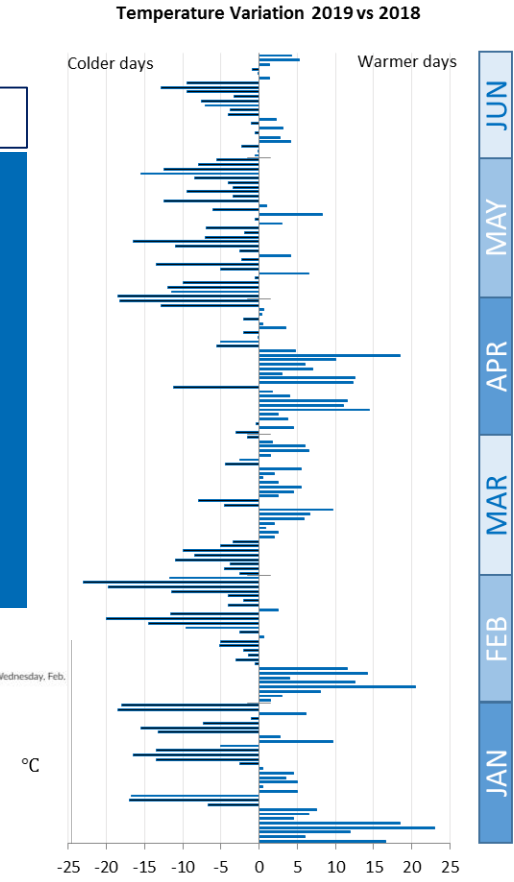
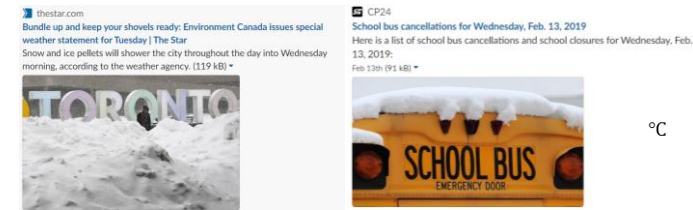
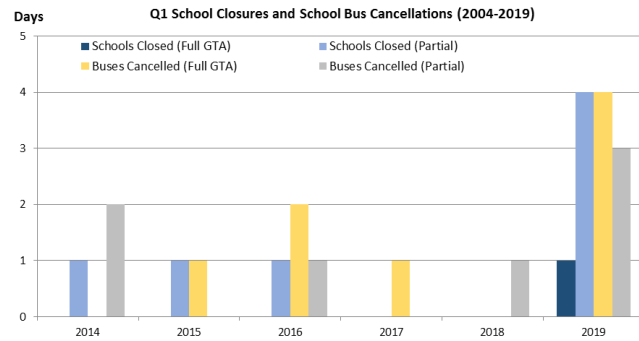
# 2019 Year-to-Date Performance



# 2019 Weather Impacts

## Impact of Weather on Traffic Performance

- Q1 2019:**
  - Experienced more severe winter weather events impacting workdays involving freezing rain and snowfall causing major traffic issues.
  - Severe weather resulted in an abnormally high number of school bus cancellations and/or school closures in the Greater Toronto and Hamilton Area.
- Q2 2019:**
  - May and June significantly impacted by colder temperatures combined with higher precipitation events compared to last year.
  - Unseasonal Spring: Coldest May experienced in over 10 Years



- 2019 January: record single day snowfall on a workday (24cm)
- 2019 February: 18 mm freezing rain all falling within Workdays
- 5 major winter school closures, school bus cancellations

**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.bnnbloomberg.ca/tim-hortons-blames-weather-weak-roll-up-the-rim-for-slowing-sales-1.1250748>

**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.wsj.com/articles/sales-fall-at-kohls-and-i-c-kenney-11558443281>

**Spring was cold to specialty retail**

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

<https://www.etaildiver.com/news/spring-was-cold-to-specialty-retail/556665/>

# Capital Structure Plan

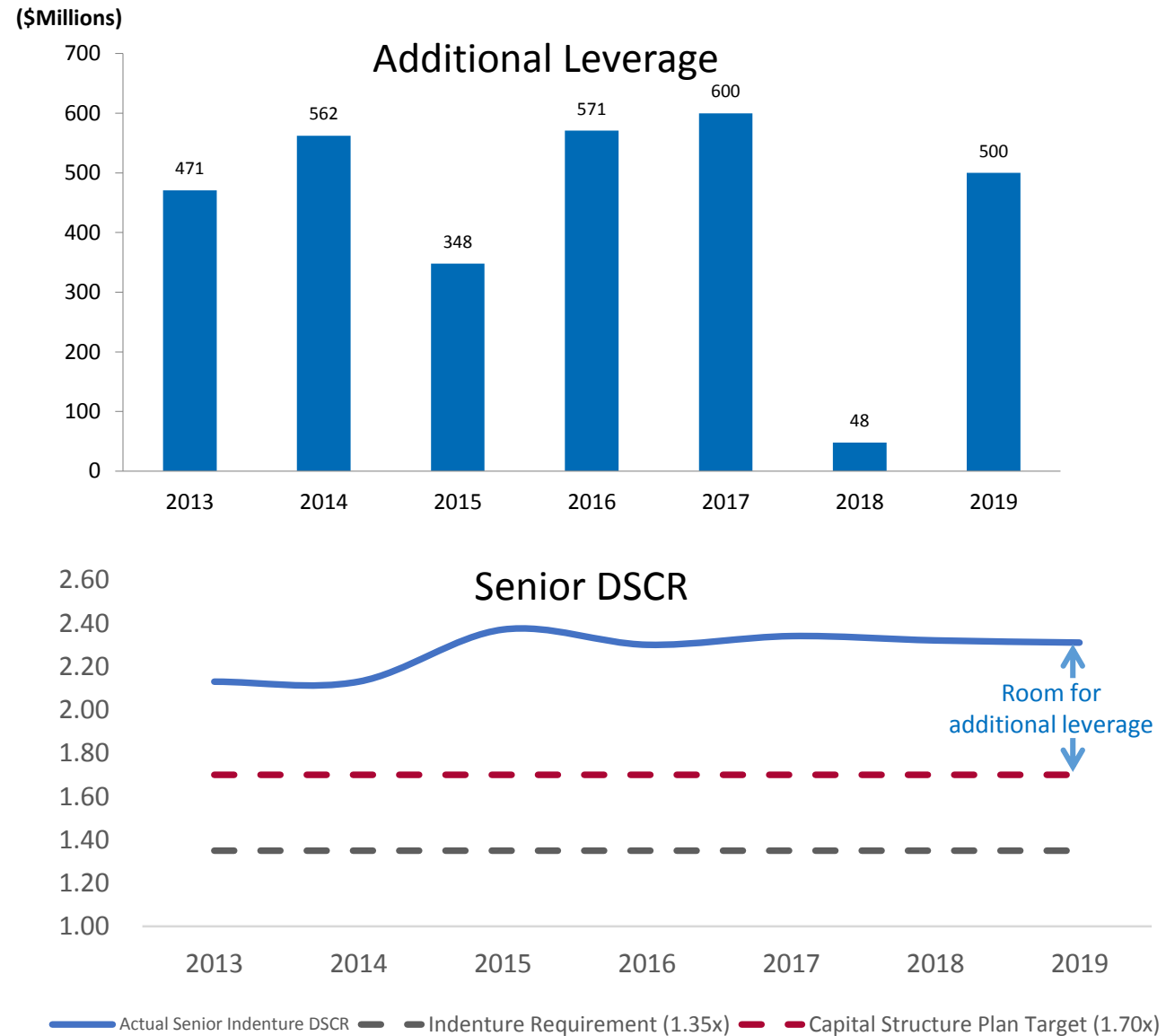


# Summary of the Capital Structure Plan

- In May 2012, Management developed the Capital Structure Plan.
- The Capital Structure Plan was approved by the Shareholders and Board of Directors in July 2012.
- The Capital Structure Plan is performance based. The quantum of additional leverage is relative to the performance of the Company.
- Key features of the Capital Structure Plan:
  - Issue senior bonds (with 12-month reserves) for gradual additional leverage and maintain coverage ratios:
    - Senior indenture coverage ratios of greater than 1.70x. (indenture requirement: 1.35x). Indenture coverage ratios include 30-year shadow principal amortization on bullet maturities.
    - Senior and junior cash coverage ratios of greater than 2.00x.
  - In addition to minimum indenture cash requirement of \$10 million and reserves of approximately \$615 million (as at December 31, 2018) , the Company will maintain additional cash balance (current level of \$105 million), equal to the sum of:
    - 3 months of budgeted cash annual operating expenses (excluding provision for doubtful accounts)
    - 3% of budgeted annual revenues
  - Excess cash balance would be paid to shareholders as dividends.

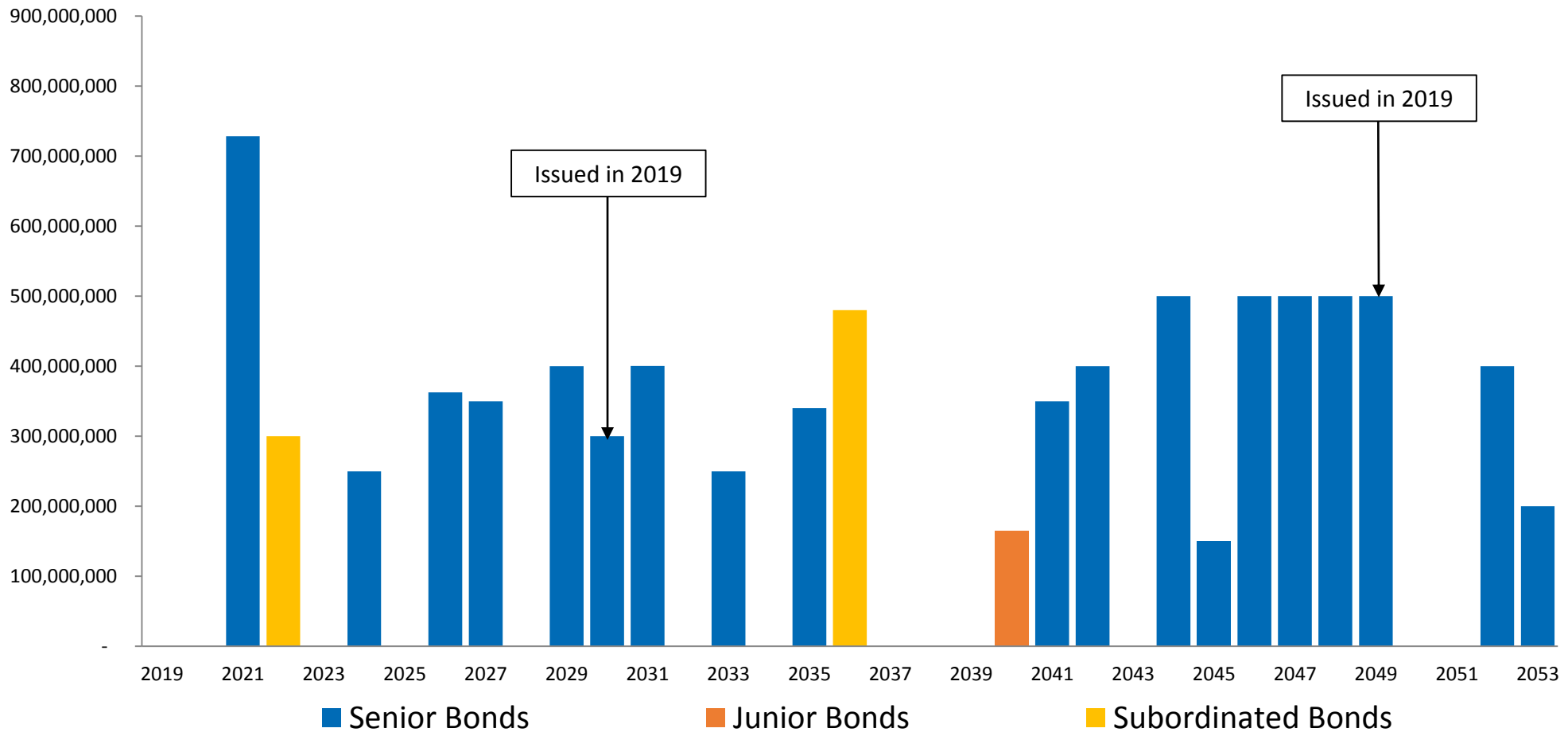
# Capital Structure Plan

- 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.
- Continue to increase the leverage of the highway asset
- Slow down deleveraging due to increasing EBITDA
  - Gradual additional leverage
  - Performance based
  - Mitigate risk of ratings upgrade
  - Reward shareholders
- Committed to maintaining existing credit ratings: “A” for Senior bonds, “A-/A(low)” for Junior bonds, and “BBB” for Subordinated bonds.
- Debt Service Coverage Ratios:
  - Target senior indenture DSCR: 1.70x; indenture requirement: 1.35x
  - Target senior and junior cash DSCR: 2.00x



# 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 8, 2018

- “All trends are Stable, supported by the solid long-term economic fundamentals of the catchment area, sound cash flow generation and good operating efficiency.”
- “Further population increases and the extension of the Highway 407 east to Oshawa, should support continued traffic growth. The Ontario government estimates that the population of the GTA will reach 9.7 million by 2041.”
- “The growth in leverage was in line with the Company’s intentions as framed in its management discussion and analysis of June 2012 to gradually increase debt by way of bullet bonds of staggered maturities, with long-term preferences, while maintaining a cash-based senior and junior DSCRs above 2.0x and a senior DSCR, including shadow amortization as per its Master Trust Indenture, above 1.7x.”



*insight beyond the rating.*

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.”





# Bond Portfolio

## Three Levels of Priority

- Senior bonds are ranked first in priority; bondholders enjoy the protection of a series reserve account that equals 12 months of principal and interest.
- Many different structures of senior bonds: nominal bullet, nominal amortizer, bullet real return bond (RRB), amortizing real return bond (ARRB), synthetic inflation protection securities (SIPS).
  - Since 2005, the Company has only issued plain, “vanilla”, nominal bullet bonds.
- Junior bonds are ranked second in priority; bondholders also enjoy the protection of a series reserve account that equals 12 months of principal and interest.
- Senior and junior bondholders enjoy the protection of the dividend distributions tests.
- Subordinated bonds are ranked behind senior and junior bonds and do not have the protection of a series reserve account. The Company must satisfy the distribution test prior to any payment of interest to subordinated bondholders.

# Key Features of the Indenture

## Dividend Distribution and Subordinated Interest Payment

- Prior to a dividend distribution or payment of interest on subordinated debt, the Company must provide an Officer's Certificate to the Trustee certifying the following:
  - Net Revenues for the 12 calendar months most recently ended were at least equal to 135% of the Annual Senior Debt Service for such 12 month period.
  - Projected Net Revenues for the next 12 calendar months will be at least equal to 135% of the Annual Senior Debt Service for such 12 month period.

## Additional Indebtedness

- Prior to issuing additional debt, the Company must provide an Officer's Certificate to the Trustee certifying that Net Revenues during any consecutive 12 month period during the most recently completed 18 month period was not less than 135% of the Annual Senior Debt Service.

## Ratings Affirmation Covenant ("RAC")

- For all bonds issued prior to June 2010, ratings affirmation letters must be issued by both rating agencies affirming the existing credit ratings of all of the Company's existing bonds.
- Bondholders whose bonds were issued post-June 2010 do not have the same protection as the RAC is not attached to these bonds. However, these bondholders can "piggy-back" off of the pre-June 2010 bond issuances; the last of which remain outstanding until 2040.

# Ongoing Project Initiatives



# Data Analytics



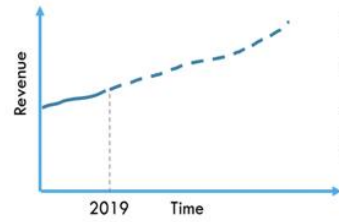
## Better Understand Customers

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.



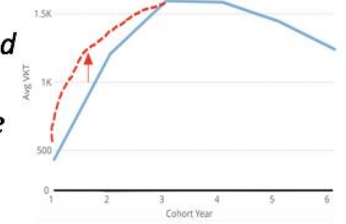
## Toll Allocation Model 2.0

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.

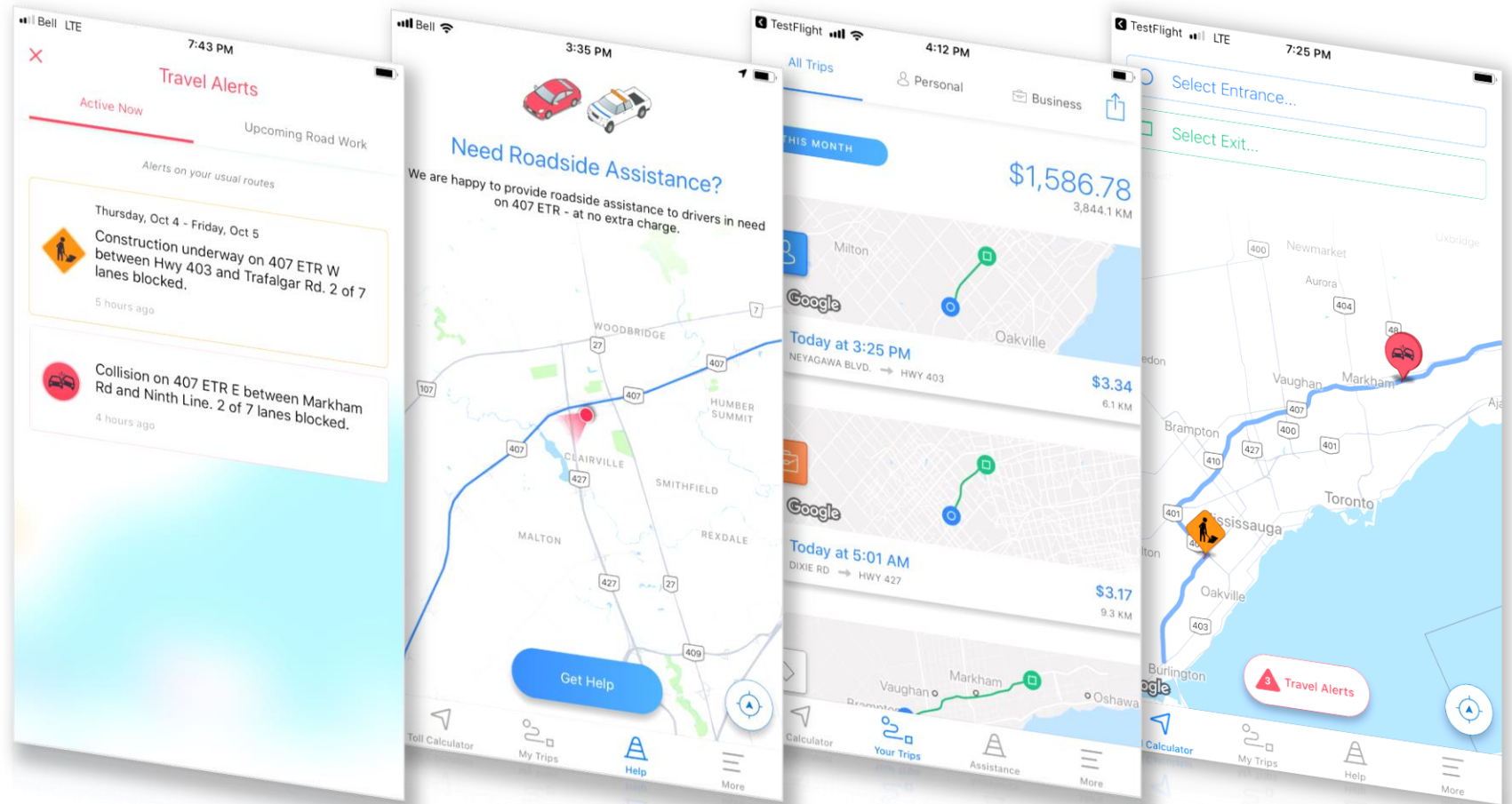


# The App - Pilot Functionality

- Travel Alerts
- Roadside Assistance
- Real Time Trips
- Toll Calculator

Ongoing development & testing of additional features continues

Customer feedback is being collected and will be incorporated in the General Availability release



# Regulatory Framework



# Statutes

Well-defined regulatory framework. 407 ETR is not subject to periodic regulatory reviews as the Concession Agreement applies for the full concession term (i.e. until 2098) and can only be changed by mutual agreement.

## Highway 407 Act:

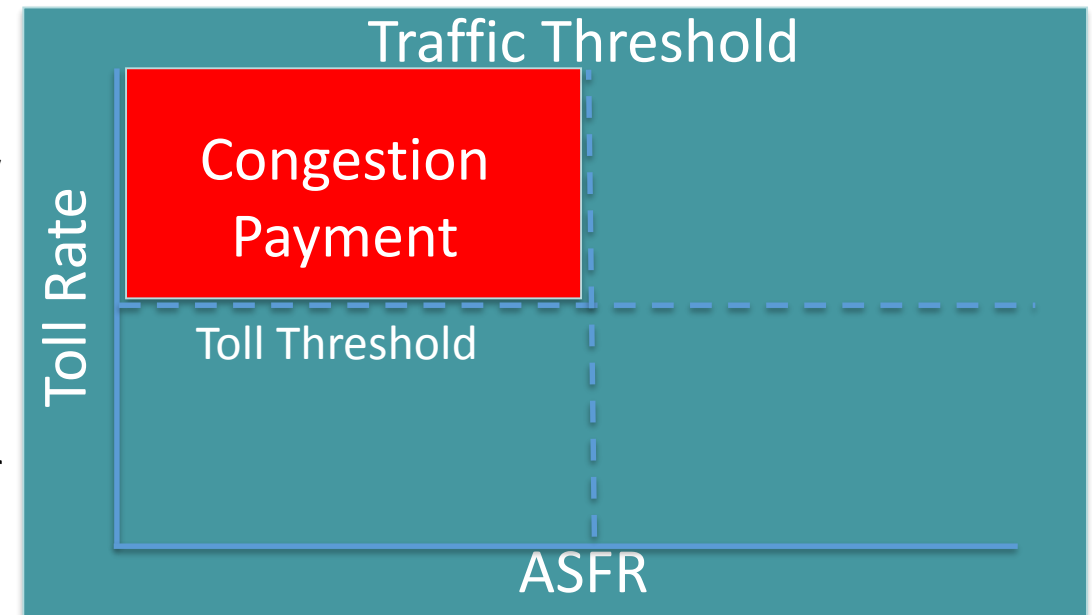
- Powers of Concessionaire (collection of tolls, exemption of tolls, etc.)
- Plate denial, enforcement of tolls, dispute process
- Collection and use of personal information
- Highway closure, emergency planning

## Highway Traffic Act:

- Plate visibility
- Powers of police officers (search and seizure)
- Definition of toll device and transponder mounting
- Toll evasion, sale of interference devices, etc.
- Compulsory use of transponders for heavy vehicles

## Schedule 22 of the Concession and Ground Lease Agreement

- There are 24 segments on the highway (12 in each direction)
- Each segment is calculated individually
- A Congestion 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)
- The congestion payment is twice the traffic shortfall times the toll rate overage
- Currently, Toll Rate is greater than Toll Threshold for all segments
- Schedule 22 includes the concept of a Congestion Payment to ensure traffic relief in the corridor (such as Highway 401).
- Sets Traffic Thresholds (minimum traffic levels) for each segment, based on 2002 traffic levels (Base Year).
- Sets Toll Thresholds for each segment, based on a 2% increases on 1999 tolls (up to 30% accumulated) and then inflation.
- The Traffic Threshold of each segment grows by 1%-3% per year after the Base Year, up to a maximum of 1,500 vehicles per hour per lane.

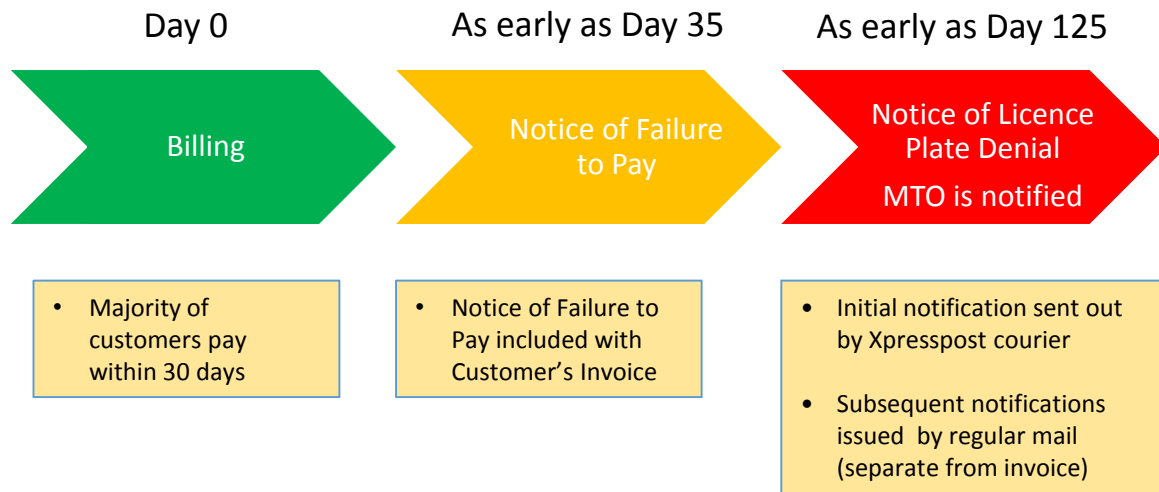




# Licence Plate Denial

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.

# 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

### **Geoffrey Liang**

Chief Financial Officer

407 ETR Concession Company Ltd

[gliang@407etr.com](mailto:gliang@407etr.com)

905-264-5298

### **Karim Sunderji**

Director, Tax & Treasury

407 ETR Concession Company Ltd

[ksunderji@407etr.com](mailto:ksunderji@407etr.com)

905-264-5375