

Public-Private Partnerships: Canada Current State & Where They Are Headed

IIAC Webinar

June 2021



Agenda

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- 3 | Trends, Issues, & Market Drivers
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SECTION 1. | NBF Introduction

Introduction

NBF Global Power & Infrastructure Finance

1

Dominant Infrastructure Advisory Team with Strong Value Proposition

- NBF ranked as the #1 financial advisor to sponsors in North America in terms of number of transactions for P3 infrastructure projects in 2020⁽¹⁾
- NBF ranked as the #1 advisor in Canada for greenfield infrastructure projects since 2019⁽²⁾ and is perennially one of the leading advisors in the sector
- NBF ranked as the #1 Canadian bond arranger for power & infrastructure projects since 2019⁽³⁾

Top P3 Financial Advisors in North America (2019-YTD) Inframation

Rank	Institution	Total (C\$ m)	Number of Deals
1	National Bank of Canada	\$5,549	9
2	Citigroup	\$10,852	4
3	Royal Bank of Canada	\$925	4

2

World-Class Debt Platform with Extensive Market Reach

- Advisory-led platform with ability to offer underwritten debt commitments
- Long-standing and in-depth relationships with debt providers and infrastructure investors across the globe
- Integrated cross-border platform enhancing execution certainty and competitive tension

Infrastructure Debt Platform Highlights

#1 **>\$11B** **~\$43B**
in project finance lending across all sectors in Canada *in capital commitments in last 48 months* *across 70 project financings in North America*

3

Established Player in the Canadian P3 Infrastructure Space

- Advised on virtually every notable Canadian greenfield infrastructure project
- NBF also ranked as the #1 bond arranger in Canada in terms of deal value and number of transactions for P3 infrastructure projects in 2020⁽⁴⁾

Strong Infrastructure Presence in Canada

#1 **>\$19B** **27**
sponsor financial advisor for P3 infrastructure since 2010 *in P3 infrastructure advisory deal value since 2010* *P3 infrastructure advisory mandates closed since 2010*

1. Source: Inframation League Tables - 2019-Current North American P3 Infrastructure Sponsor Financial Advisor (Excl. Public Sector Advisors)

2. Source: Inframation League Tables - 2019-Current Canadian Greenfield Project Advisors (Excl. Public Sector Advisors)

3. Source: Inframation League Tables - 2019-Current Canadian Power & Infrastructure Bond Arranger

4. Source: Inframation League Tables - 2020 Canadian P3 Infrastructure Project Bond Arranger

SECTION 2. | What is a PPP & Current State

What is a PPP?

PPP DEFINITION

- **Public Private Partnerships** (“PPP or P3”) - Defined by the PPP Knowledge Lab as:
 - “A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance”
 - Reality: P3s are a mechanism for governments to procure, implement, and transfer risk of public infrastructure to the private sector
 - Benefits:
 - Risk transfer to best positioned parties
 - Risk valued and measured against ‘Value for Money’ model
 - Holistic lifecycle view
 - Public & private capital
 - Project finance → debt to discipline

CANADIAN HISTORICAL LANDSCAPE

- **Canadian P3s historically:**
 - Provincial procurement
 - Long-term contracts (construction and operations)
 - Significant private financing

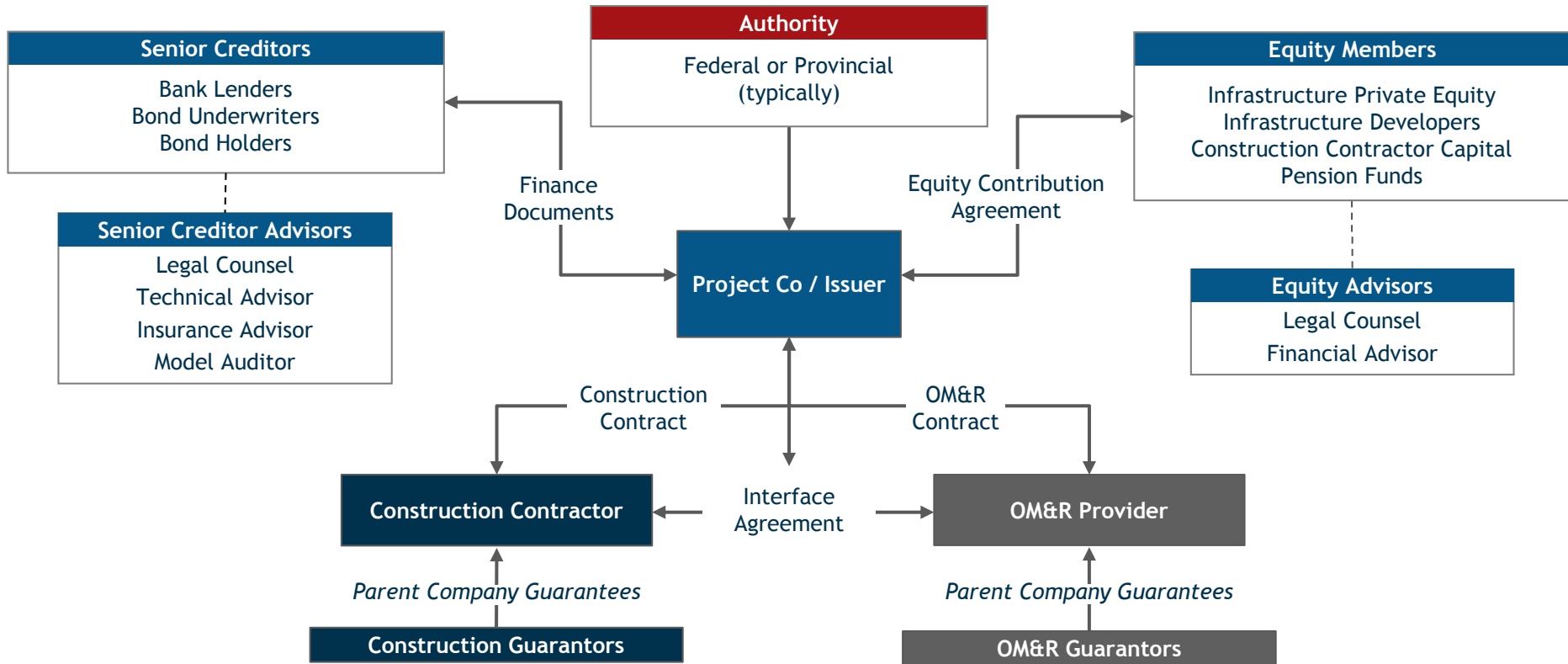
- **Canadian P3s and infrastructure private investment today:**
 - Evolving P3 structures and alternative investment models
 - Privatizations (e.g. Land Registries), CDPQ’s REM development model, unsolicited proposals, etc.
 - Traditional P3s:
 - Short-term contracts, increased “subsidy”, reduced long-term private capital, procurement innovation
 - Infrastructure broadly: system expansions, M&A, recapitalizations, energy → more investment grade, P3-like financings
 - COVID-19 stimulus



1. Canadian Council for Public Private Partnerships & P3 Spectrum

What is a PPP?

PPP CHARACTERISTICS



PPP TIMELINE



Current State - Canadian Infrastructure

INFRASTRUCTURE DEFICIT

- Decades of under-investment in infrastructure have led to a substantial infrastructure deficit in Canada
 - Estimates of Canada’s infrastructure deficit vary, but range from \$110 billion to \$270 billion on average⁽¹⁾
 - Canadian Chamber of Commerce estimates gap could be as high as \$570 billion
 - Deficit seen not only in lack of new infrastructure, but under-maintenance of existing infrastructure, impacting useful life and quality
 - Municipalities responsible for 60% of Canada’s core infrastructure, but collect just 12 cents of every tax dollar⁽²⁾

\$270bn
Average High Case of Canadian Infrastructure Deficit

COVID-19 IMPACT

Temporary Effects	<ul style="list-style-type: none"> ▪ Interruption and market disruption ▪ Slow implementation & pacing of greenfield transactions ▪ Construction delivery delays (labour availability and constraints, supply chain interruptions, etc.) ▪ Examples: Highway 104, Halton Courthouse
Continuing Effects	<ul style="list-style-type: none"> ▪ Increased project costs ▪ Contractual and legal disputes (fall-out of force majeure delay claims, supervening events, relief) ▪ Adjustments in risk allocation
Build Back Better	<ul style="list-style-type: none"> ▪ Opportunity to ‘build back better’ ▪ \$10 Billion CIB Infrastructure Stimulus ▪ Climate change focus - \$17.6bn in new spending

\$17.6bn
New Climate & Environmental Initiatives - 2021 Federal Budget

\$10bn
Dedicated CIB Infrastructure Stimulus Plan

1. CanInfra average range of Canadian Chamber of Commerce, CANADAWEST FOUNDATION, Canadian Center for Public Alternatives, Federation for Canadian Municipalities
 2. Canadian Union for Public Employees

SECTION 3. | Trends, Issues, & Market Drivers

Trends, Issues, & Market Drivers

P3 Subsidization

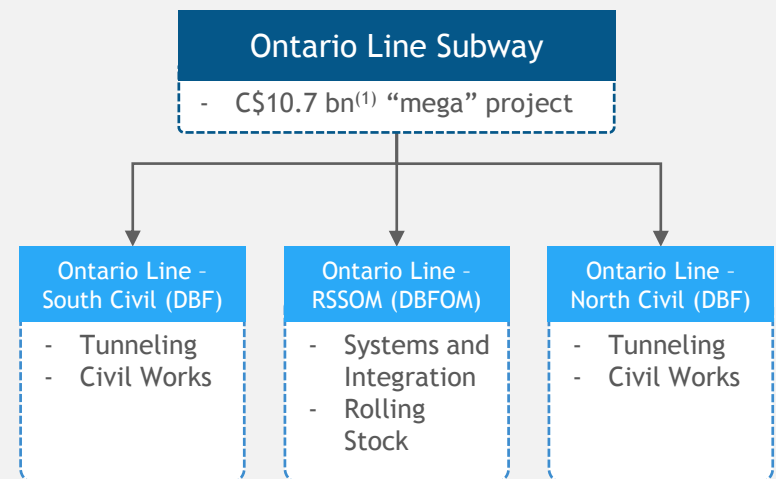
- Canadian procurement agencies have adopted an increased level of subsidization to finance P3 projects
 - Procurement model transition to short-term, construction financing (Design-Build-Finance (DBF)/Build-Finance (BF))
 - Fewer Long-term, operating P3 projects and with reduced private capital and increased operating leverage

TRENDS

- Short-Term, Construction-only P3s**
 - Cumulative percentage of short-term contracts as proportion of Total P3 increased from 25% to 37% between 2016 and 2021
 - Opportunity: Short-Term Bonds
 - Long-Construction Periods
 - Competitive Coupons vs Bank Market (swap spreads)
- Increased Level of Operating Leverage in DBFM/DBFOM P3s**
 - Long-term private capital as a percentage of a project's total capital costs has decreased from 100% pre-2008 financial crisis to 15%-50% today
- De-Risking of Traditionally Long-Term Contracts**
 - System extension issues have pushed traditionally large, long-term P3 contracts to be split into several smaller projects
 - Other forms of de-risking include:
 - New procurement models (upfront design, PDAs, etc.)
 - Procurement model innovations (Hurontario LRT additional financing; Trillium LRT Wide Equity)

Case Study: Dividing the Ontario Line Subway

- Ontario Line Subway: Greenfield 15.6 km subway line running between Exhibition/Ontario Place and the Ontario Science Centre in Toronto, Ontario
- C\$10.7 bn⁽¹⁾ project split into three distinct projects (two DBFs and one DBFOM), decreasing long-term capital and construction responsibilities of the DBFOM procurement
- Other examples: Scarborough Line Extension, Hamilton LRT, Yonge Line Extension, RER Expansion



Source: Infrastructure Ontario

1. Capital cost estimate, Government of Ontario

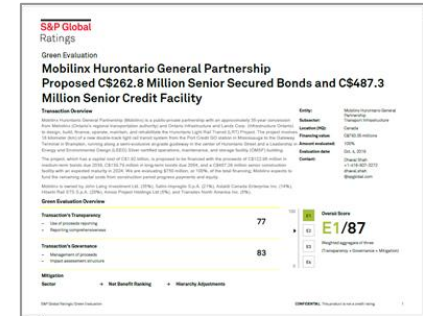
Trends, Issues, & Market Drivers

ESG - Environmental

- ESG considerations have become a pre-requisite for infrastructure projects in Canada
 - Federal & Provincial Governments ear-marking infrastructure dollars to projects that meet ESG targets

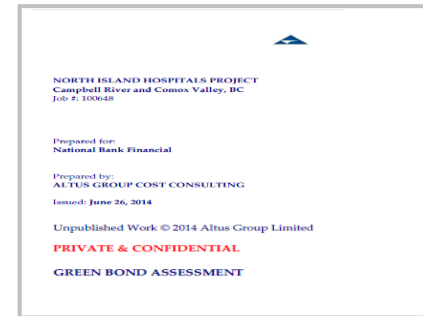
TRANSIT

- Federal Government Transit Spending: \$14.9bn over eight years, \$5.9bn short-term
- Infrastructure Ontario Market Update: 11 of 13 transportation projects → public-transit
- Province of Ontario Inaugural Green Bond Issue: Eglinton Crosstown LRT P3
- Hurontario LRT Project, Ontario: Project Finance Green Bond
 - Displaced diesel-based buses with electric light rail vehicles - S&P Green Evaluation



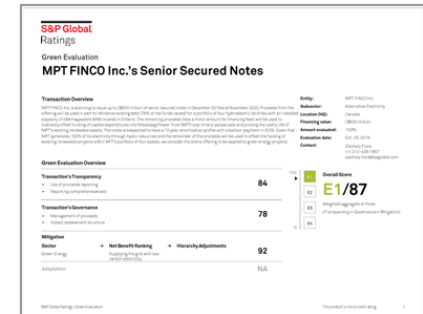
SOCIAL INFRASTRUCTURE

- Social Infrastructure with LEED certification such as hospitals and government buildings
 - Building retrofits improving energy efficiency
- North Island Hospitals Project, British Columbia: Project Finance Green Bond
 - LEED Gold, Wood First, BC Hydro Power Smart programs - Altus Green Evaluation



CLEAN ENERGY

- Clean energy will be a key driver of infrastructure spending in Canada
 - Transmission lines, diesel generation substitution, battery storage, green hydrogen
- Mississagi Power Trust Hydro Portfolio, Ontario: Project Finance Green Bond
 - Renewable power generation, supports Ontario nuclear fleet - S&P Green Evaluation



Public Transit, 'Green Buildings' & Clean Energy will be important drivers addressing climate change spending

Trends, Issues, & Market Drivers

ESG - First Nations

- First Nations related transactions will be a significant driver of infrastructure spending over the short and medium-term
 - “I have instructed the CIB to establish a new investment target of \$1 billion for Indigenous infrastructure projects in full partnerships with Indigenous Peoples” - Catherine McKenna, Minister of Infrastructure & Communities

FIRST NATIONS DEFICIT

- Estimated \$30-\$45 billion First Nations basic infrastructure deficit
- Identified pipeline of ~\$37.5 billion of large infrastructure projects (2021-2025)
 - E.G.: Kivalliq hydro fibre link Nunavut Manitoba
- Majority of projects in energy sector; likely to include investment grade financing structures

INCREASE IN FIRST NATIONS INSTITUTIONS & INITIATIVES

- First Nations Financing Authority
- First Nations Major Projects Coalition
- First Nations Infrastructure Institute
- Alberta Indigenous Opportunities Corporation

GREENFIELD TRANSACTIONS

- First Nations considerations a requirement for any new greenfield project (equity participation, consultation)
- Trans Mountain Pipeline
- Coastal Gas Link - Lesson learned
- East Tank Farm
- Oneida Battery Storage

Case Study: Tłı̨chǫ All-Season Road

Project: 97-km all-season gravel highway
FN Involvement: Equity Participation, Construction Involvement
Private Capital: \$253 million



Case Study: Wataynikaneyap Transmission Project

Project: \$1.9bn, 1800 km transmission project connecting 17 remote FN communities to Ontario electric grid
FN Involvement: 51% Equity Participation
Private Capital: Not publicly disclosed



Case Study: AESO Renewable Electricity Program (REP)

Project: AESO REP Round 2 procurement required minimum 25% Indigenous equity ownership
FN Involvement: Equity Participation
Private Capital: Not publicly disclosed



First Nations will play a major role in infrastructure investment

Trends, Issues, & Market Drivers






Government Priority - Canada Infrastructure Bank

- Canada Infrastructure Bank expected to be a major platform for infrastructure development in Canada over the next decade
- CIB Mandate:** Invest \$35 billion of federal funding in revenue-generating infrastructure projects that attract private capital
 - Core Sectors: Green Infrastructure, Clean Power, Public Transit, Trade and Transportation and Enhanced Broadband Infrastructure
- Implicit Goals:**
 - Crowd in private capital
 - Increase in revenue risk transactions
 - Unsolicited proposals
- Success?**
 - Slow going, but pipeline beginning to develop
 - Recent success stories: Oneida
 - Majority of projects won't look like traditional P3s and will include market risk for private capital, but will require bonds with IG profiles



SHORT-TERM GROWTH PLAN⁽¹⁾

- The Federal Government recently announced a three-year, \$10bn Growth Plan to hasten infrastructure spending and development of projects with targeted directives

 Public Transit	 Clean Power	 Green Infrastructure	 Broadband	 Trade & Transport
\$1.5bn: Zero-Emission Buses	\$2.5bn: Clean Power	\$2bn: Energy Efficient Building Retrofits	\$2bn: Large-Scale Broadband Projects	\$1.5bn: Agriculture-Related Infrastructure
Growth Plan: Project Acceleration \$500MM for project development and early works to shorten critical paths to construction				

Expect CIB to drive increased private capital investment over next decade

SECTION 4. | What To Expect Next

What to Expect Next

- **Private capital plentiful and available to fund necessary infrastructure**
 - “Dry Powder” within infrastructure funds and pension plans enormous
 - Infrastructure asset M&A, expansions, concessions, etc. will generate financing opportunities
- **Massive pipeline**
 - Close the infrastructure gap
 - Build back better stimulus
 - Infrastructure Ontario alone managing a pipeline of 38 projects with an estimated value greater than \$60 billion⁽¹⁾
 - ReNew Canada’s Top 100 largest public sector infrastructure projects under development in excess of \$250 billion⁽²⁾
 - Existing DBFM pipeline of traditional P3’s is significant
 - Increase in short-term P3 contracts → Opportunity for shorter-term fixed rate product
 - Bank market capacity constraints for large infrastructure projects (four Toronto transit projects)
 - Competitive financing costs
- **Alternative models will be part of the mix**
 - Unsolicited proposals (Ontario and Alberta frameworks)
 - Revenue-risk transactions and privatizations through concessions
 - CIB to facilitate revenue risk transactions with \$35.0 billion to invest; Alberta Land Registry Project Concession
 - Existing infrastructure expansions
 - New models / model refinement (de-risking: more upfront design, reallocating risks such as permitting, utility relocation)
 - Lowest cost not always best criterion

1. Infrastructure Ontario
2. ReNew Canada

What to Expect Next

- **Alternative ‘Public-Private Partnerships’** - New projects not historically considered P3s, but with P3 characteristics
 - REM - potential for utility like independent transit authority to issue bonds
 - Union Station West, Via Rail High Frequency Rail
 - Expect investment grade bond profiles
 - Revenue risk & availability revenue profiles
- **\$2 trillion U.S. infrastructure stimulus & investment program**
 - Requires Canada to keep up to maintain competitive position
- **Recommendation to governments: more private capital required**
 - Enables increased infrastructure investment and facilitates innovation
 - Low amounts of private capital invested limiting available expertise & innovation
 - E.G. Canadian pension funds continue to promote alternative models & unsolicited proposals
- **Government commitment**

“It [has become] clear to me through the pandemic that ‘infrastructure’ is a bureaucratic, fuzzy word. Really it is clean water, energy security, safe roads, bridges and public transit, housing, communications technology, and so much more. [Infrastructure]... improves the quality of life for Canadians and connects us. Infrastructure is critical for economic growth, job creation, and combating the effects of climate change, which is key as we look towards recovery from the COVID-19 pandemic.”

- Catherine McKenna,
Minister of Infrastructure and Communities

SECTION 5. | Appendix: NBF ESG Credentials

National Bank Financial Markets

A Complete Suite of ESG Services and Experience

- Member of the Green Bond Principles (GBP) whose members have either issued, underwritten/placed, or invested in a green bond
- Lead sponsor of IIAC's 2019 Green Bond Conference in Toronto and 2020's virtual Transition Bond Conference
- Joined the Canadian Standards Association (CSA) Technical Committee, leading the development of a "Transition Finance Taxonomy"
 - Chair of the Agriculture sub-committee, the only one presided by a Canadian Bank
- Will act as *one of two* liquidity partners for TMX's Sustainable Bonds for trading operations starting in 2021
- Created an internal ESG Task Force, bringing together different sectors of Capital Markets to centralize our information and efforts
- National Bank Financial is also involved in the Transition bond market and is well positioned to help issuers shift to greener business activities
 - Strong focus on improving the carbon footprint of its lending portfolio and Investment Banking Business, resulting in a 23% growth in Low Carbon credits during FY 2020

NBF Transaction Focus: First Nations Finance Authority Raise ~C\$1.5 Billion in Debt for Indigenous Communities

- As Advisor and Lead Underwriter for the First Nations Finance Authority (FNFA), we helped raise close to **C\$1.5 billion** in debt for Indigenous communities
 - Initially acting as sole lender, National Bank is now acting as Sole Bookrunner and Administrative Agent for FNFA's corporate facility
- FNFA received the **2018 Governor General's Innovation Awards**, highlighting its innovative funding regime developed in partnerships with National Bank of Canada and Financial Markets



Debt Capital Markets

- Raised over **C\$25 billion** in combined ESG/Green Governmental and Corporate debt since 2014, including:
 - Province of Ontario (Joint Lead):
 - Green: C\$1.25B 1.85% 02/01/27 in Jan-21
 - City of Toronto (Joint Lead):
 - Green: C\$130M 2.60% 09/24/39 in Dec-20
 - IBRD 'International Bank for Reconstruction & Development' (Joint Lead):
 - Sustainable : C\$1.5B 0.625% 01/14/26 in Jan-21
 - Brookfield Renewable Partners ULC (Joint Bookrunner):
 - Green: C\$425M 3.33% 08/13/50 in Aug-20

Credit Capital Markets

- Leading project finance lender to the renewable space in Canada
 - Top lender in Canada** and Top 10 position in North America
- Lead or participant in the only 2 broadly syndicated Sustainability Linked Loans ("SLL") in Canada
- Lead or co-lead arranger on several Canadian IPP corporate financings including the Algonquin Power, BluEarth Renewables, Boralex, Innergex, and Northland Power corporate revolvers

Infrastructure Finance

- Involved in the financing of over **C\$15 billion** in several ESG/Green deals, including the following accredited Green deals:
 - MPT FINCO INC: C\$628.3M in Dec-19 (Joint Bookrunner & Lead Agent)
 - Mobilinx Hurontario GP: C\$263.3M in Oct-19 (Lead left underwriter & Co-Lead Bookrunner)
 - THP Partnership: C\$231.5M in Jun-14 (Lead left underwriter & Co-Lead Bookrunner)



Through its various groups, NBF has a proven ability to raise ESG/Green debt for our clients

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