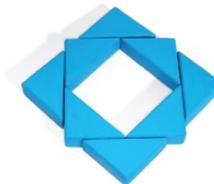




# MIC

## Maintenance Capex Review

June 2018



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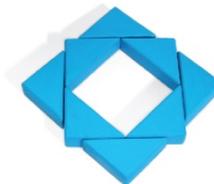
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# Executive Summary

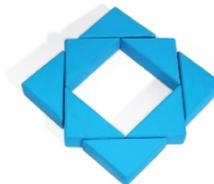
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- Deploying capital to maintain our businesses is an important part of what we do
- Maintenance capital expenditures:
  - provide a safe and healthy environment for our employees, customers, and the communities in which we operate;
  - maintain the integrity and cash generating capacity of our assets; and,
  - maintain compliance with a wide range of regulations
- We benchmark our historical performance to 2007, the first full year that MIC owned the businesses that comprise our current portfolio

## *Classification of Maintenance and Growth Capital Expenditures<sup>1</sup>*

- We categorize capital expenditures as either maintenance capital expenditures or growth capital expenditures
- In broad terms, maintenance capital expenditures primarily maintain our business at current levels of operation, capability, profitability, or cash flow, while growth capital expenditures typically enhance these factors
- In classifying capital expenditures, we assess whether:
  - an asset currently exists or if it is new (not a replacement);
  - the investment provides enhanced functionality or capability; and,
  - profitability or cash flow is expected to increase through either incremental revenue, or reductions of costs or future capital requirements

1. For a complete discussion of the Company's classification of capital expenditures, please see our Form 10-K as filed on February 21, 2018.



# Executive Summary

## IMTT

- We benchmark maintenance capex on a dollar per-barrel basis
- From 2014 through 2017:
  - IMTT's maintenance spending has averaged \$0.84/bbl
  - IMTT's investment exceeds that of a universe of publicly traded peers
- Analysis based on reported depreciation is distorted by GAAP accounting
  - For accounting purposes, IMTT depreciates tanks over a 20 year period, although well-maintained tanks can have an economic useful life in excess of 100 years

## Atlantic Aviation

- Atlantic Aviation has significant flexibility to either accelerate or curtail maintenance capital spending in any one year
- Historically, maintenance capital expenditures have averaged \$142,000/FBO/year
  - Average investment by peers<sup>1</sup> has ranged from less than \$70,000 - \$140,000/FBO/year

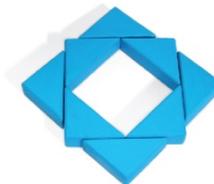
## Contracted Power (CP)

- Maintenance expenditures are covered by various service agreements, warranties and insurance products
  - The agreements result in most expenditures being classified as an Operating Expense (recorded in the segment's Income Statement and reducing EBITDA) rather than maintenance capital expenditures
- BEC is a newly constructed<sup>2</sup> gas fired power plant and has no planned major maintenance capital expenditures until at least 2021/2022
- Industry-wide, the level of planned major maintenance capital expenditures for solar and wind assets is typically low

## MIC Hawaii – Hawaii Gas

- Maintenance capital expenditures include replacement of pipeline and storage tanks, vehicles, and other equipment

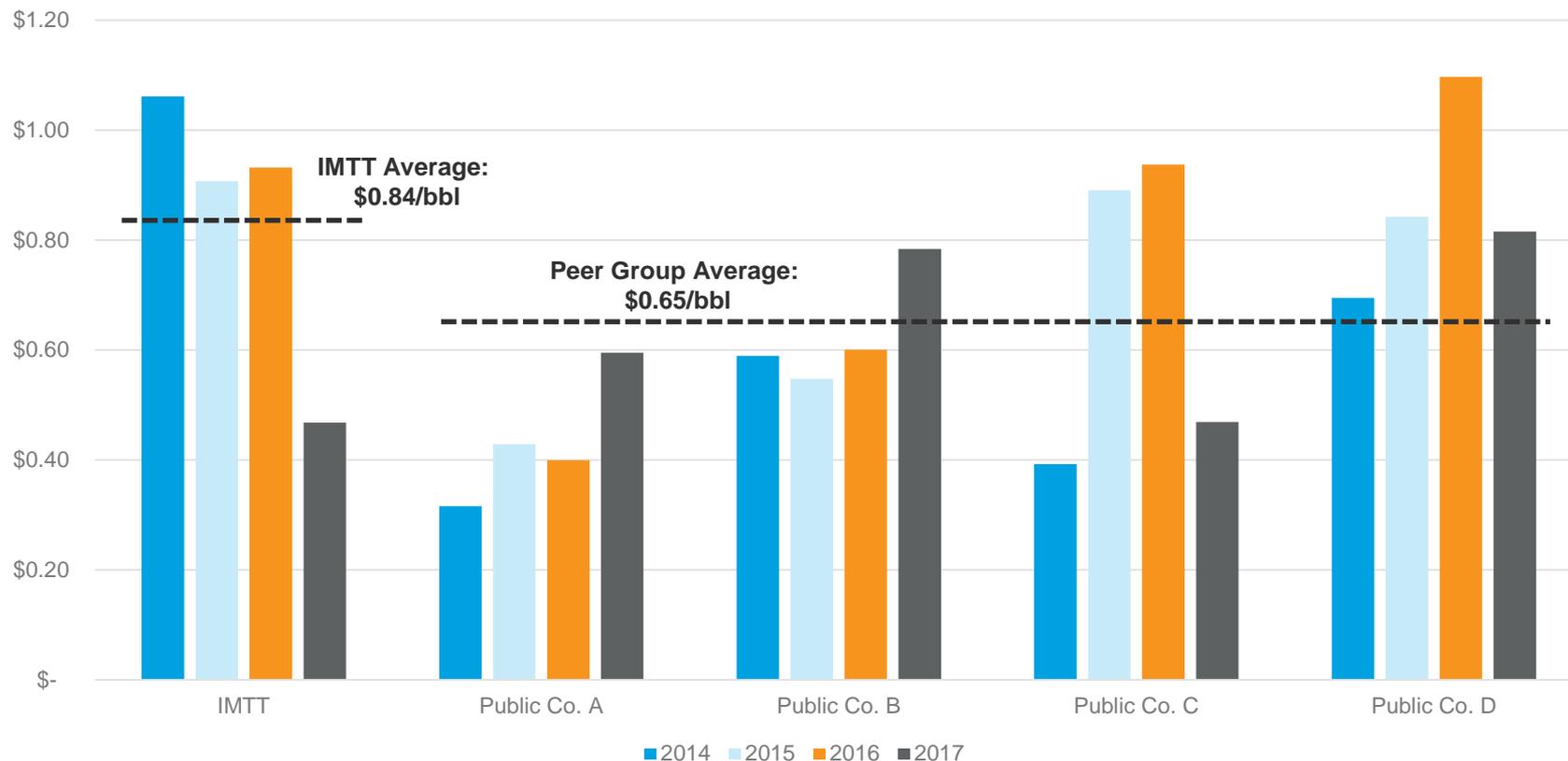
1. Does not include BBA Aviation who does not report maintenance capital expenditures.  
2. BEC was placed into service in 2012.



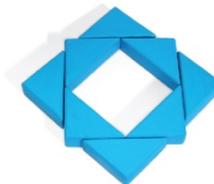
# Maintenance Capex Benchmarking

On a per barrel basis, IMTT invests more in maintenance capex than an average of peer storage and terminal operators<sup>1</sup>

## 2014 - 2017 Maintenance Capex - \$/bbl



1. Peer group information obtained or estimated by MIC from peer company public filings and reports, including press releases and Form 10-K. Peer group includes ARCX (LTM as of 3Q17), BLP, NS, and SRLP. Peer group selected based upon factors including similarity in operations and availability of data. Where applicable, capacity has been adjusted to reflect proportionate interest in the reported capacity, in instances where the company does not fully own all of its facilities. The peer group averages are consistent with U.S. private companies for which we have data.

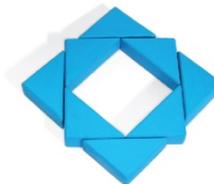


# IMTT Maintenance Capex 2000-2017

Time Period	\$/bbl (Avg.) <sup>1</sup>	Commentary
Family Ownership (2000-2005) Prior to MIC 50% interest	\$0.55/bbl	<ul style="list-style-type: none"><li>Maintenance spending was relatively consistent from 2000-2005</li></ul>
Joint Ownership, pre-dispute (2006-2010)	\$0.94/bbl	<ul style="list-style-type: none"><li>Maintenance capital expenditures steadily increased during the period MIC owned 50% of IMTT</li></ul>
Shareholder dispute and Hurricane Sandy (2011-2013)	\$1.61/bbl	<ul style="list-style-type: none"><li>A period characterized by a dispute with MIC's co-investor and repairs to IMTT's Bayonne terminal as a result of damage from Hurricane Sandy</li><li>MIC successfully arbitrated this dispute and was awarded a \$110 million back payment</li></ul>
MIC 100% Ownership (2014- 2017)	\$0.84/bbl	<ul style="list-style-type: none"><li>After acquiring the remaining 50% of IMTT in 2014, MIC focused on normalizing spending levels</li><li>Initiatives included multi-year maintenance capital expenditure planning and implementation of competitive procurement processes that are providing better value for purchases</li><li>For 2018, IMTT's maintenance capital spending is expected to be higher than in 2017</li></ul>

The GAAP depreciable life of a storage tank is 20 years vs. the observed average useful life which is in excess of 3-times that amount

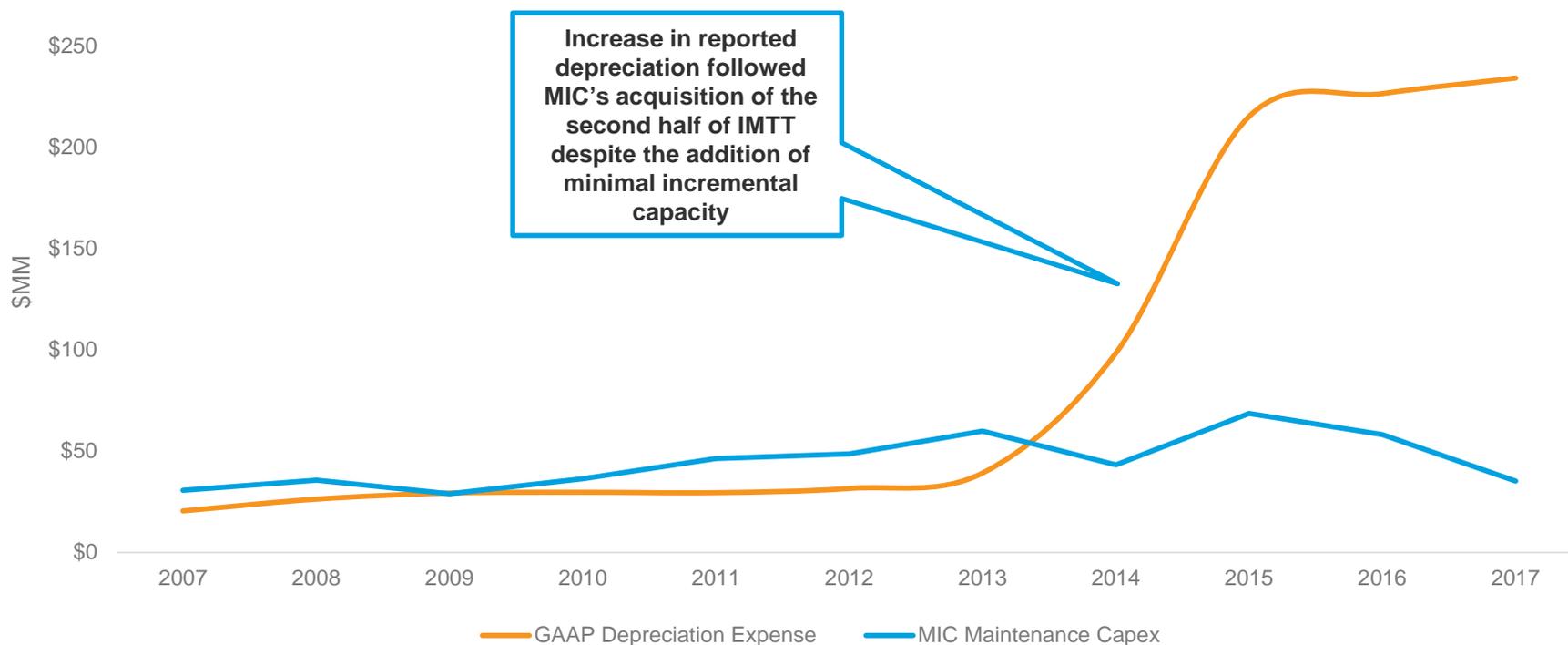
1. Excludes maintenance capital expenditures associated with IMTT's 20% owned terminal in Newfoundland, Canada, which is reported under the equity method of accounting. Additionally, the above figures exclude Repair and Maintenance (R&M) spending, which are classified as operating expenses. R&M averaged \$32.3 million annually during the period from 2006-2017.



# Maintenance Capex v. Depreciation

Following the acquisition of the second half of IMTT, depreciation lost any relevance for MIC management as a guidepost for required maintenance capital spending

## GAAP Depreciation Expense v. MIC Maintenance Capex 2007 – 2017



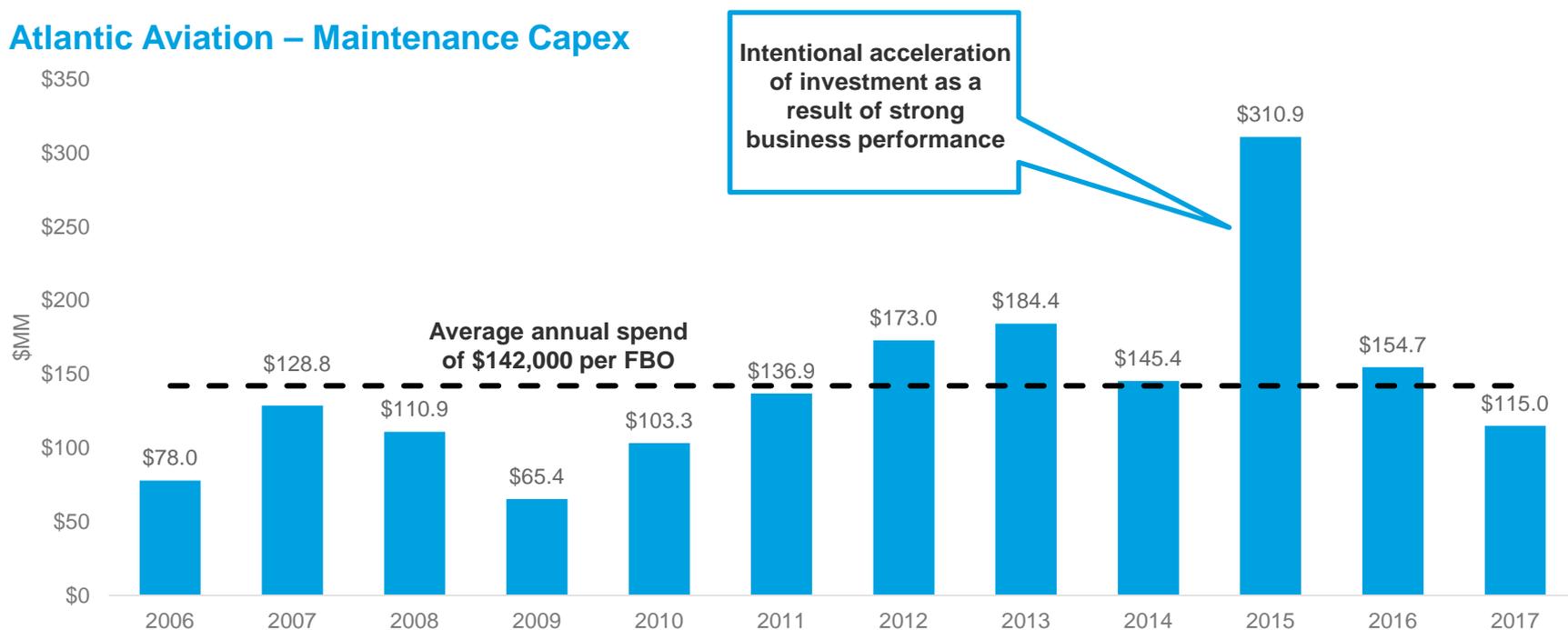


# Atlantic Aviation

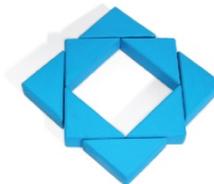
Atlantic Aviation has significant flexibility to either accelerate or curtail annual maintenance capital expenditures

- Maintenance capital expenditures have averaged \$142,000/FBO/year since 2006
- Management benchmarks Atlantic's spending against others in the FBO industry<sup>1</sup>
- Spending by peers<sup>1</sup> has ranged from less than \$70,000 to \$140,000/FBO/year

## Atlantic Aviation – Maintenance Capex



1. Does not include BBA Aviation who does not report maintenance capital expenditures.



# Contracted Power

**Contracted power facilities are covered by various service agreements, warranties, and insurance products to minimize the financial impact of component replacement and normal wear-and-tear**

## **Bayonne Energy Center (BEC)**

- Newly constructed<sup>1</sup> gas fired power plant with a remaining useful life of 30-35 years
- Most maintenance spending is expensed (reduces EBITDA) and therefore not reported as capex
- Maintenance conducted in accordance with the OEM's recommended schedule
  - Entered into a LTSA with Siemens<sup>2</sup> which covers inspections and routine minor maintenance (based on fired hours) – BEC expenses the cost of the LTSA
  - Entered into an additional third-party O&M agreement covering comprehensive services such as safety and reliability maintenance
  - No turbine major maintenance capital expenditures expected until at least 2021/2022

## **Renewable Facilities (Wind and Solar)**

- Consists of relatively new assets with a weighted average asset age of approximately six years
- Components carry warranties/service agreements from OEMs
  - Post-warranty, MIC is responsible for maintenance costs associated with component failures, although the financial impact of component failures is partially mitigated by insurance
- O&M contracts cover facility maintenance (reduces EBITDA)
- Industry-wide level of planned major maintenance capital expenditures is typically low

1. BEC was placed into service in 2012.

2. LTSA = Long-Term Service Agreement, which covers inspections and routine minor maintenance for up to ~50,000 fired hours per turbine over 20 year maximum period.



# MIC Hawaii – Hawaii Gas

## Hawaii Gas regularly invests in the integrity of its distribution network

- Maintenance capital expenditures include replacement of pipelines and storage tanks, vehicles, and other equipment
- The timing and amount of maintenance capital spending is driven in part by regulatory directives and guidance

