



# **RBC Capital Markets Oil & Gas and Energy Infrastructure Income Trust Conference**

## **Toronto**

**November 30 - December 1, 2005**



## Topic “Finding Accretive Growth Opportunities in a Competitive Market”

### Questions

- ❖ What is Accretive Growth?
- ❖ What is a Growth Opportunity?
- ❖ Who are our Competition?

Some food for thought.

# What is Accretive Growth?



- ❖ Conventional wisdom, Distributable Cash per Unit
  - ❖ Short-term versus long-term?
  - ❖ Sustainability?
  - ❖ Volatility?
  - ❖ Basic versus fully diluted?
  
- ❖ Unconventional wisdom
  - ❖ What about NAV?
    - ❖ Per Unit, fully diluted
  
  - ❖ Look at the forgotten measures
    - ❖ EPS/U, fully diluted
    - ❖ ROE
  
  - ❖ What is impact on yield?
  
  - ❖ Do not place undue reliance on EBITDA multiples as indicators of good deals.

# What is a growth opportunity?



- ❖ Conventional wisdom, Acquisitions
  - ❖ Does it fit with existing business and competencies?
  - ❖ Why is vendor selling?
  - ❖ Historical growth of business?
  - ❖ High growth, low CAPEX Businesses do not exist
- ❖ Unconventional wisdom
  - ❖ Organic Opportunities
    - ❖ Lower risk, incremental economics, likely higher returns
    - ❖ Likely smaller in size
  - ❖ Greenfield Opportunities
    - ❖ Long-term
    - ❖ Need to assume development risk
    - ❖ 3 to 10 year development cycle
    - ❖ 20 to 50 year investment returns
  - ❖ Size does count, the size of the returns
  - ❖ If you are a buyer the best deals are completed in poor equity markets

# Who are our Competition?



- ❖ Conventional wisdom, Energy Infrastructure Income Funds
  - ❖ IPL, PIF, ENF, etc.
- ❖ Unconventional wisdom
  - ❖ What about E&P royalty trusts?
    - ❖ Complementary assets, lengthens life
  - ❖ What about Corporates?
    - ❖ Opportunity short, well capitalized, cost of capital  $\approx$  Income Funds
  - ❖ US Corporates and MLP's
    - ❖ Kinder Morgan/Terasen examples
  - ❖ Canadian tax exempts
  - ❖ Private equity/Energy traders
- ❖ Very unconventional wisdom
  - ❖ IPO Market
    - ❖ Retail investors
      - ❖ Low cost of capital
      - ❖ Limited due diligence
    - ❖ Yield, yield, yield

# Some food for thought



- ❖ Do your own research, read, read, read
  - ❖ Competitors, Industry, Internet
  - ❖ Look at BAR's filed on SEDAR
- ❖ Do not rely only on Proforma and current year growth in DCPU
- ❖ Look for excessive financial engineering to achieve "accretion"
- ❖ Remember that acquisition/IPO may have been marketed to 5+ other potential buyers
- ❖ Size is not everything
  - ❖ Growth in DCPU, EPS/U is easier from a smaller base
- ❖ Do not place undue reliance on EBITDA multiples
- ❖ Why have the entities with the lowest cost of capital been the least active acquirers?

