Brookfield

Fueling AI Growth in the Golden Era of Natural Gas

BROOKFIELD PUBLIC SECURITIES GROUP

Key Takeaways

We believe power demand has potential to rise significantly in the coming years - largely due to the expansion of artificial intelligence (AI) data centers - that may increase the use of natural gas for electricity generation. We believe publicly traded U.S. midstream companies are well-positioned to benefit from this trend by linking end-user demand with natural gas supplies. These companies own and operate most of the country's natural gas transmission systems, giving them a strong competitive edge. This advantage may allow them to have solid return potential on new growth projects and has the potential to enable attractive, long-term value creation—without the need to take on material amounts of new debt or raise money through equity capital markets.

Furthermore, while the AI story is well-known and expected to drive the next wave of midstream growth, the sector's strong free cash flow yield and growth of that free cash may drive a solid, compounding total return for years to come.

OBSERVATION 1

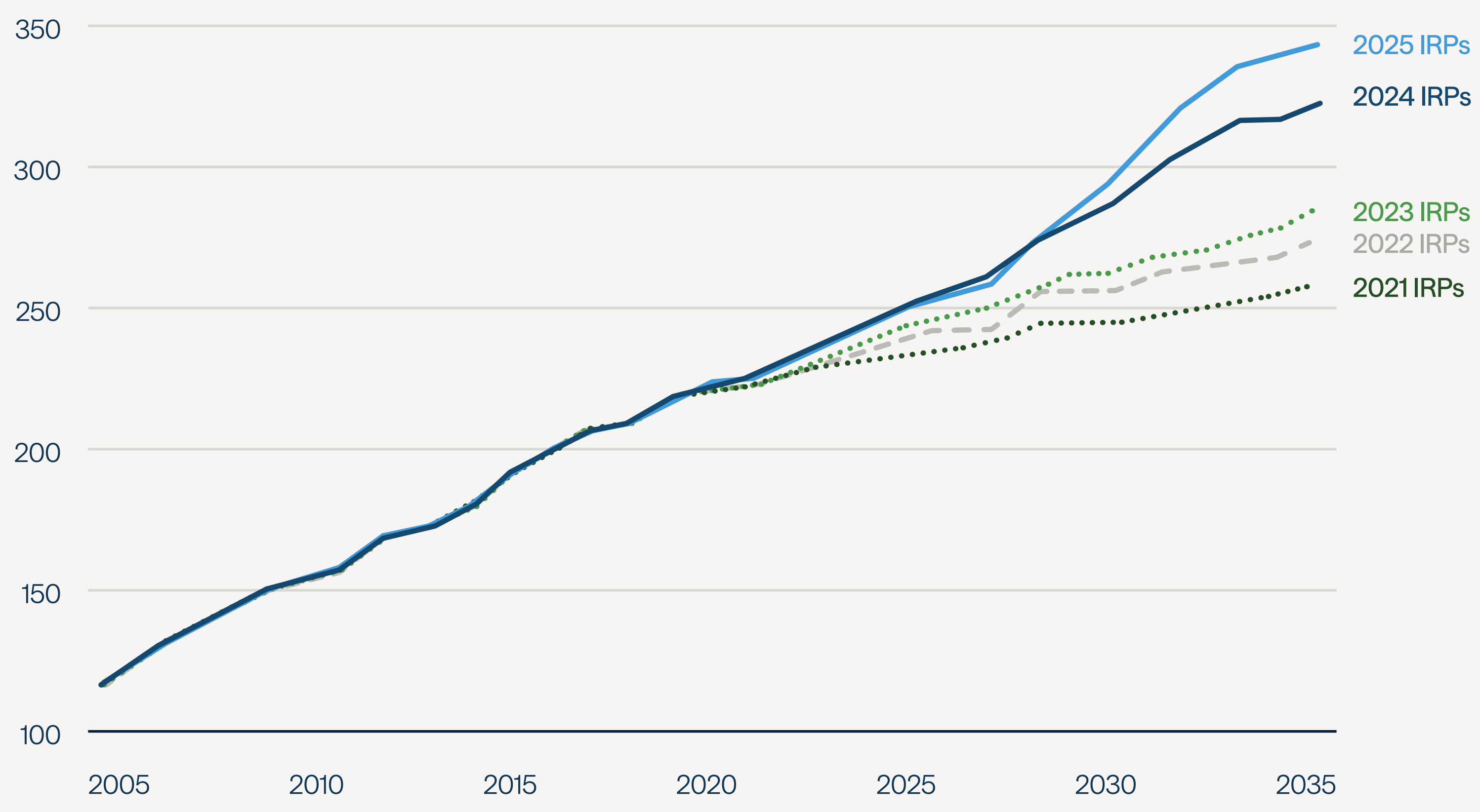
The Link Between Utilities and Midstream Is Strong

Natural gas has long been a critical component of the power generation value chain, due to its reliability, abundance, and lower emissions profile relative to other dispatchable hydrocarbons.

In fact, between 2018 and 2023, a period which saw no net power load growth and the proliferation of wind and solar, natural gas grew its share of the power stack by 8%, exceeding wind and solar's 6% growth rate.

In 2024, power demand growth projections began to accelerate, and the forward outlook for domestic natural gas demand began to grow in tandem. As recently as 2021, a sampling of utilities' integrated resource plans ("IRPs") that represent ~50% of power generation in the U.S. showed an expectation of slow, but steady growth in new natural gas generation through 2035 in the U.S. By the summer of 2025, that same sampling of utilities projected an incremental ~100 gigawatts of new natural gas capacity by 2035 compared with the more muted outlook from four years prior. At the same time, the U.S. is developing its second (and third) wave of natural gas liquefaction (which yields liquefied natural gas, or LNG) infrastructure to export U.S. gas abroad. We believe these trends are tailwinds for natural gas infrastructure operators to grow alongside burgeoning demand and generate potential attractive returns on capital.

Planned Utility Gas Capacity Additions (GW)



Sources: Rocky Mountain Institute, "The State of Utility Planning, 2025 Q2," July 15, 2025. https://rmi.org/the-state-of-utility-planning-2025-q2/. Chart includes projections from 128 IRPs, covering 47% of electricity delivered to U.S. There is no assurance that such events or projections will occur, and actual outcomes may be significantly different than those shown here.

OBSERVATION 2

Listed Midstream Companies Benefit from Competitive Advantages

There are undoubtedly multiple avenues for investors to participate in the AI and data center build-out. However, we believe midstream is unique in that most of the existing U.S. natural gas value chain resides in the hands of publicly listed companies. Projected power demand growth is expected to be broad-based and span the map of the United States, with several large-growth markets only serviced by a small number of pipelines. As a result, we believe incumbents stand to benefit as natural barriers to entry help to protect and enable strong current returns on invested capital.

The combination of the incumbency advantage that listed companies possess and the geographic advantage that certain companies possess in any given demand center have contributed to increasing returns on capital projects relative to prior build cycles.

As an example, the current capital backlog of one U.S. midstream operator of $7.6 billion, which consists primarily of natural gas transmission projects, is being built at a 5.6x EBITDA multiple. We believe this is a very attractive value proposition for long-lived assets with long-term minimum volume commitments and compares to our historical estimate, and an investment multiple often cited by energy infrastructure management teams, of a 6x-8x EBITDA investment multiple.

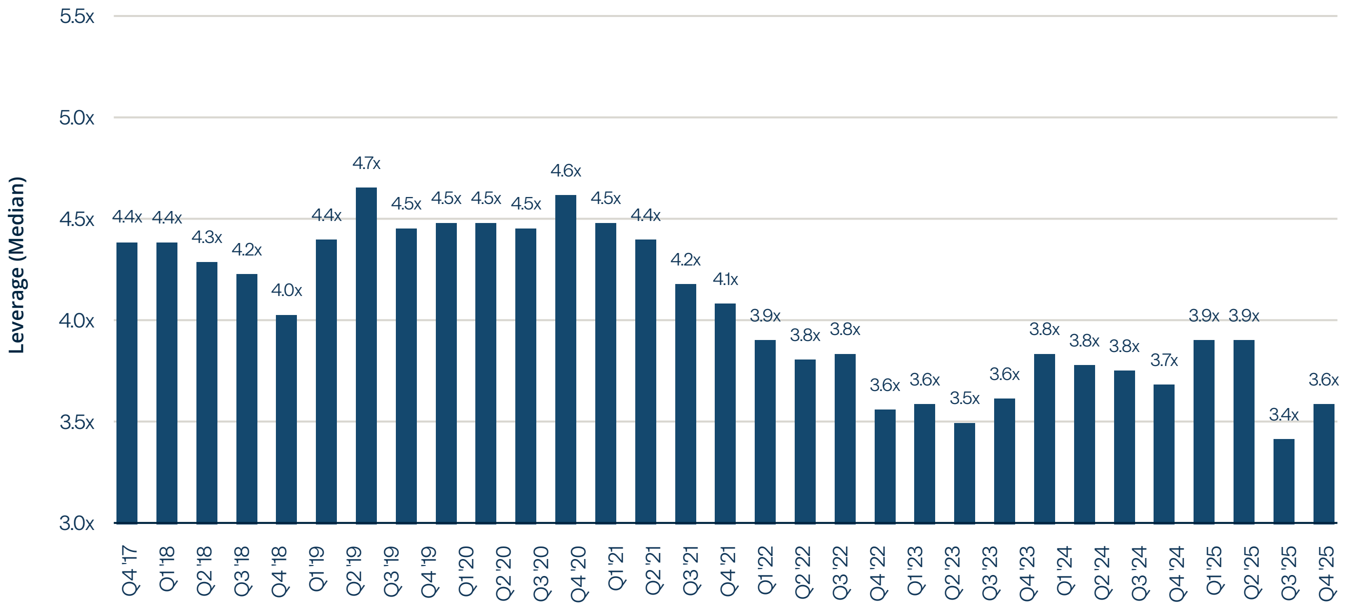
OBSERVATION 3

Corporate Finance Models Drive Value Creation

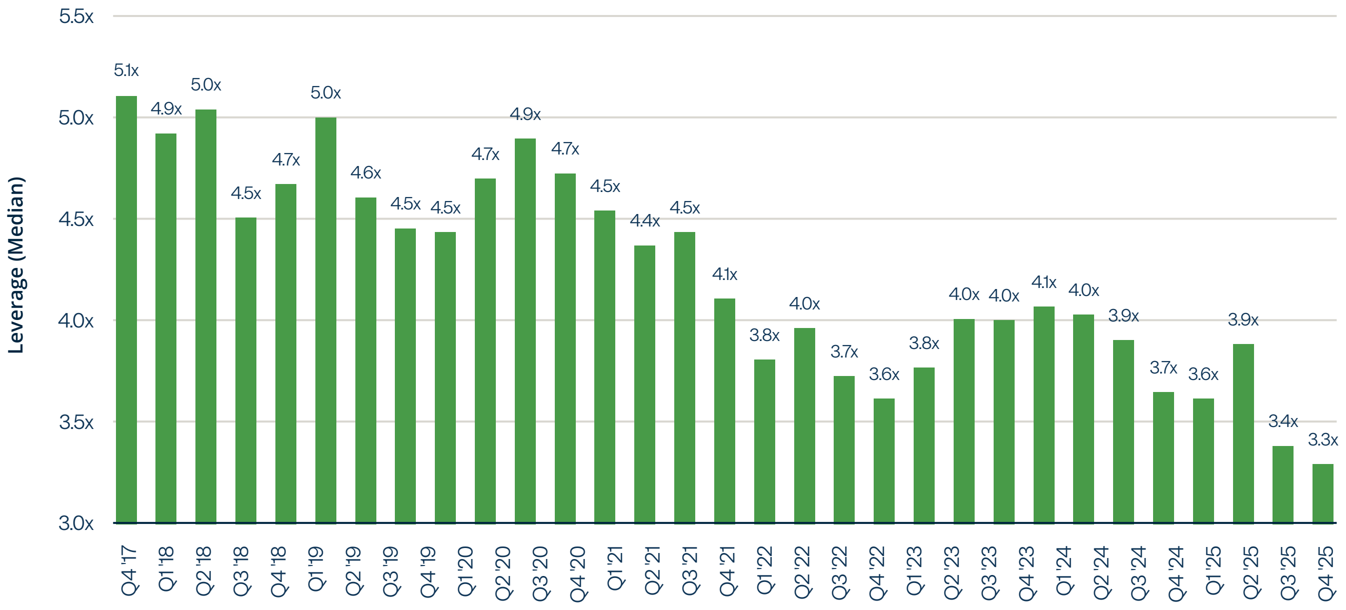
Midstream companies today look very different from those a decade ago. Ten years ago, the average company was paying out most of its distributable cash flow to investors and sourcing most of its capital expenditure needs from debt and equity markets. Ultimately, this corporate finance model proved to be unsustainable. The need to re-plumb the U.S. with new hydrocarbon infrastructure to accommodate volume growth proved to be too large for capital markets to be able to satisfy. This evolution resulted in some challenging years, resulting in poor returns and reductions in distributions to investors.

Since 2020, the sector has transformed. Leverage levels for both investment-grade and high-yield midstream companies have meaningfully declined. With improved financial flexibility, a typical midstream company can currently satisfy both its dividend and its capital backlog with internally generated free cash flow, oftentimes generating excess operating cash flow left over to reduce debt further or buy back stock. What's more, as midstream companies continue to grow over time, we are optimistic that they can continue to de-lever organically as projects get placed into service and begin generating cash flows.

Investment-Grade Rating Agency Leverage



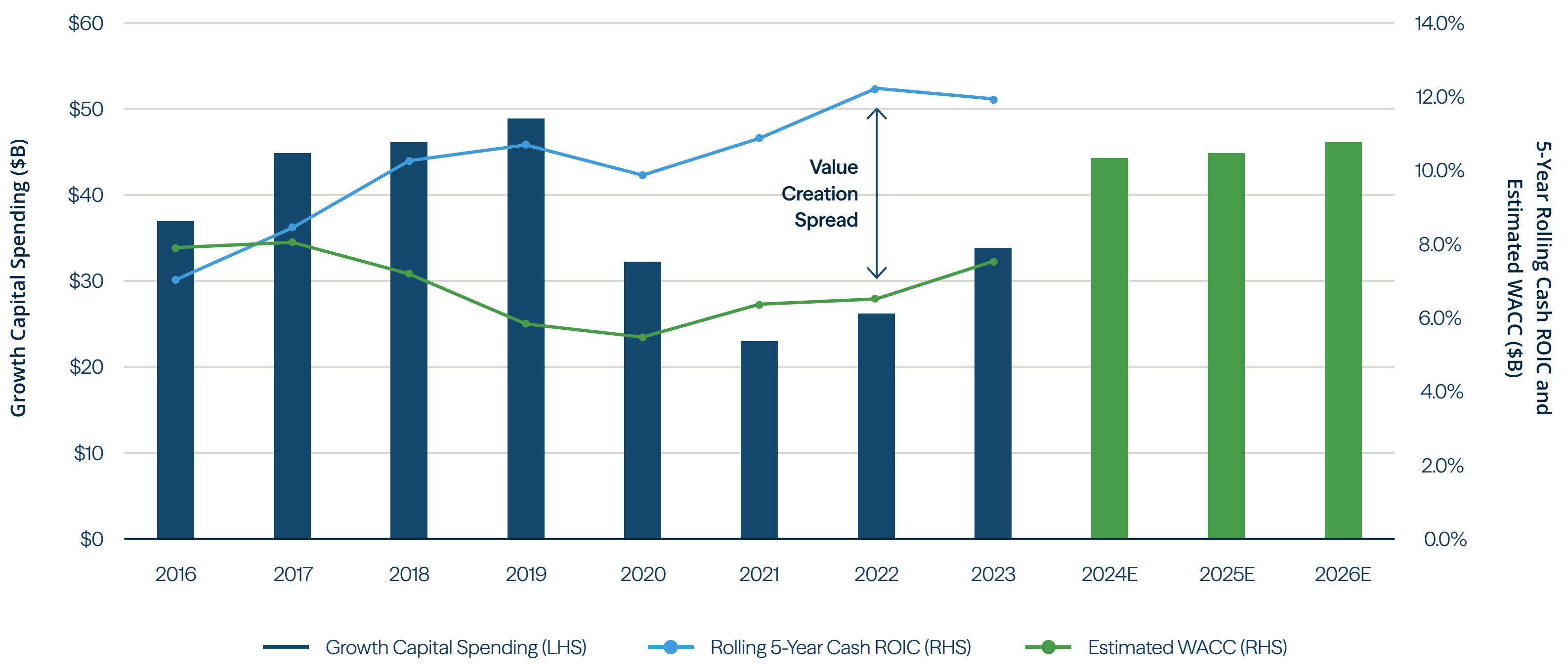
High-Yield Rating Agency Leverage



Sources: Company reports, FactSet and Wells Fargo Securities, LLC estimates. There is no assurance that such events or projections will occur, and actual outcomes may be significantly different than those shown here.

Moreover, as company costs of capital have improved and project returns have gone up (as noted in the example above), the "value creation spread" (the spread between project returns and cost of capital) continues to widen. We believe this value creation spread offers a compelling investment opportunity that is fairly unique to midstream listed infrastructure.

Midstream 5-Year Rolling Cash ROIC, Estimated WACC, and Growth Capital Spending



Sources: Wells Fargo, Brookfield Public Securities Group, Bloomberg.
Past performance is not indicative of future returns. ROIC = return on invested capital. WACC = weighted average cost of capital. Growth capital spending according to Wells Fargo Securities, LLC estimates and based on copmany reports. Rolling 5-Year Cash ROIC based on "Summary of Cash Returns Over Our Last Nine 'Show Me The Money' Reports" according to Wells Fargo Securities, LLC. Estimated WACC based on Bloomberg WACC's of Brookfield midstream coverage universe. There is no assurance that such events or projections will occur, and actual outcomes may be significantly different than those shown here.

Ultimately, we believe the path forward for energy infrastructure is an attractive one—strong underlying business fundamentals, supported by domestic and international growth in natural gas demand—enhanced by defensive corporate finance models and strong balance sheets, compelling income, and anticipated growth of that income.

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