
Ports America Group

AAPA

Presentation

**Surviving the Competitive Marine Terminal Industry
Economics of Marine Terminal Operations**

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OCTOBER 23, 2008



U.S. Ports

The View From 2008

U.S. PORT INFRASTRUCTURE:

- Key Port performance drivers:
 - Volume: Slow down in trade
 - Infrastructure: Recent developments
 - Technology
 - Trade Patterns: Diversion from traditional gateways

U.S. Ports

The View From 2008

- **TRADE SLOW DOWN**

- Forecasts in 2006: 5-7% sustained growth in U.S. Trade volume
- Key North America gateway congestion forecast for 2012-2015 timeframe
- Actual:
 - 2007 aggregate: flat volumes
 - 2008 projection: down 2-4 %
 - 2009 likely: flat to 2008

U.S. Ports

The View From 2008

- **TRADE SLOW DOWN**

Outcomes:

- Time to deal with:
 - Starting to attack infrastructure issues
 - Finding common ground with environmental constituencies
 - Implementing new technologies
 - Integrating Port security initiatives
 - » TWIC

Realities:

- Return to 6% growth will require 3.2 million TEU in new capacity annually.

U.S. Ports

The View From 2008

Infrastructure: Recent Developments

- Infrastructure Issues well documented
- Developments
 - U.S. Government has “found” the infrastructure issue
 - Excess of study
 - Need to adopt California model on Federal Level
 - California
 - \$ 3.1 B in trade related public funding over 5 years.
 - Total investment could be doubled with matching funds.
 - Issue: total identified need is over \$ 70 B.
 - FEES

U.S. Ports

The View From 2008

Infrastructure: Recent Developments

- Developments (cont.)
 - First Environmental Impact Reports issued in Socal in over 5 years.
 - 500+ acres of idle or fill terminal capacity
 - Other capacity expansion > .5 million TEU
 - Tacoma
 - Oakland
 - Houston
 - Charleston
 - Jacksonville
 - Mobile
 - Prospective Projects
 - Craney Island - Norfolk
 - Jasper County - SC/VA
 - New Orleans
 - Total “in hand” projects equals around 30 months of organic growth.

U.S. Ports

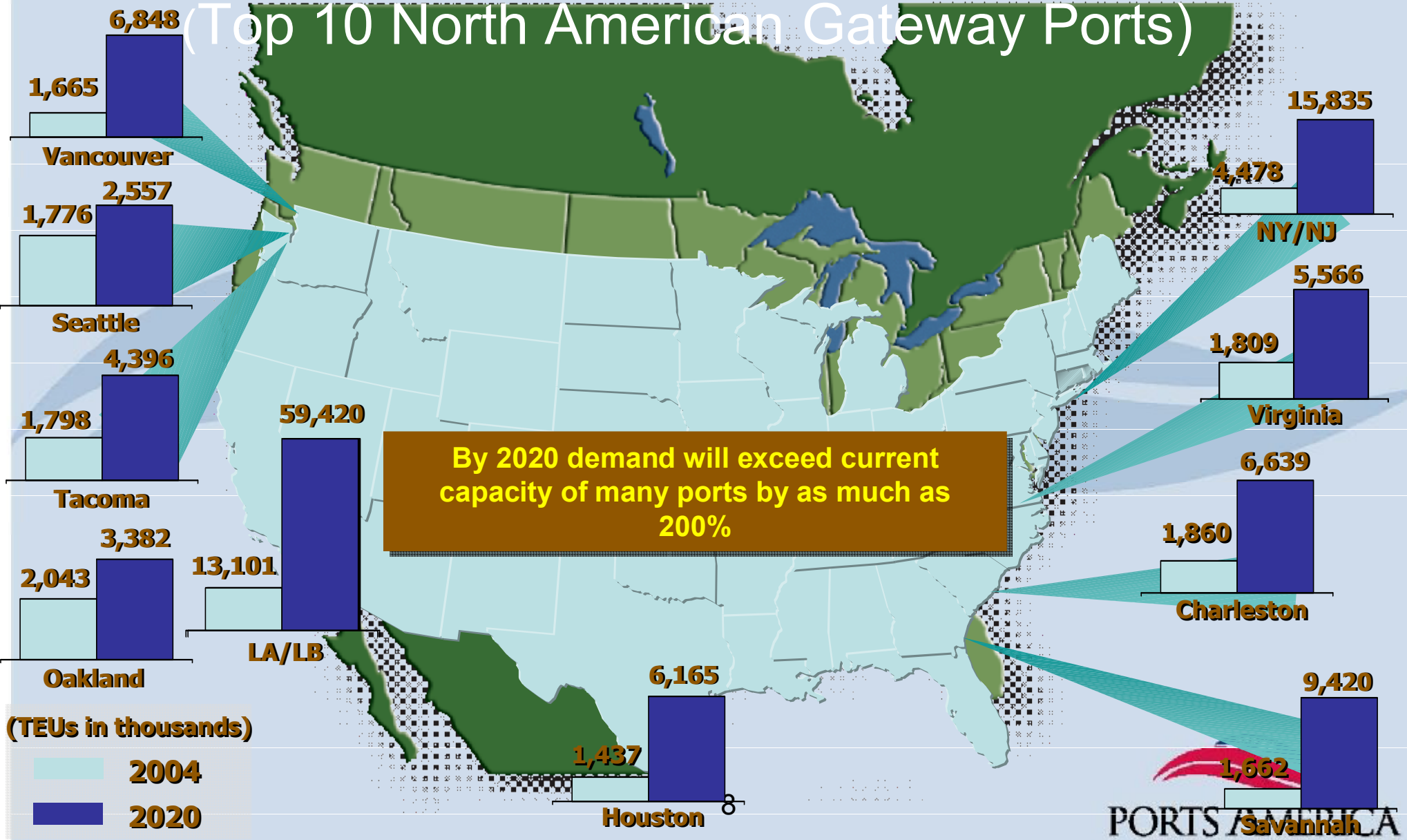
The View From 2008

Technology

- Issue:
 - U.S. continues to lag trading partners in adoption of Port technology
 - Symptoms:
 - low throughput per acre
 - high unit costs
 - Example: Shanghai throughput per acre: > 18,000 TEU
 - LA/LB through put per acre: < 6,500 TEU
 - Adoption of new technology has been slow:
 - West Coast: Under 33% of 2002 PMA/ILWU contract objectives achieved by 2008

North American Maritime Container Current and Future Trade Growth

(Top 10 North American Gateway Ports)



U.S. Ports

The View From 2008

Technology

- Developments:
 - First semi-automated terminal in Portsmouth VA
 - Marginal gains in 2008 PMA/ILWU Contract
 - Adoption of new technologies remains a challenge on all U.S. coasts.

- Issue:
 - Synchronization of Port capacity and supporting infrastructure capacity.

U.S. Ports

The View From 2008

Summary:

Low volumes have bought U.S. Ports time, but we still need to find:

the means to do more with less resources

Key Industry Themes

- Continued expected growth of trade with China and the rest of Asia
 - Including increasing US commodity export to Asia
 - Growth of foreign auto imports from Europe and Asia to the North American market
 - Direct import to US East Coast by all-water service through Panama Canal and Suez Canal
 - Expected widening of Panama Canal
- Capacity constraints in key US markets
 - Constraints at Los Angeles/Long Beach anticipated to further increase direct waterborne East Coast trade
 - Will also benefit other Pacific Coast ports
 - Conversion of RoRo ports to container facilities
- Technology efficiency advancement expected to increase in pace
 - Continued efficiency gains with introduction of new technology
 - Labor negotiations and concessions on technology

Historic Growth Trends

- During the past 26 years, US container volumes have grown more than twice as fast as national GDP
 - Long-term trend of outsourcing manufacturing employment, particularly to Asia, contributed an additional 1.6% annually to container growth over the last decade
 - An increasingly service-oriented economy

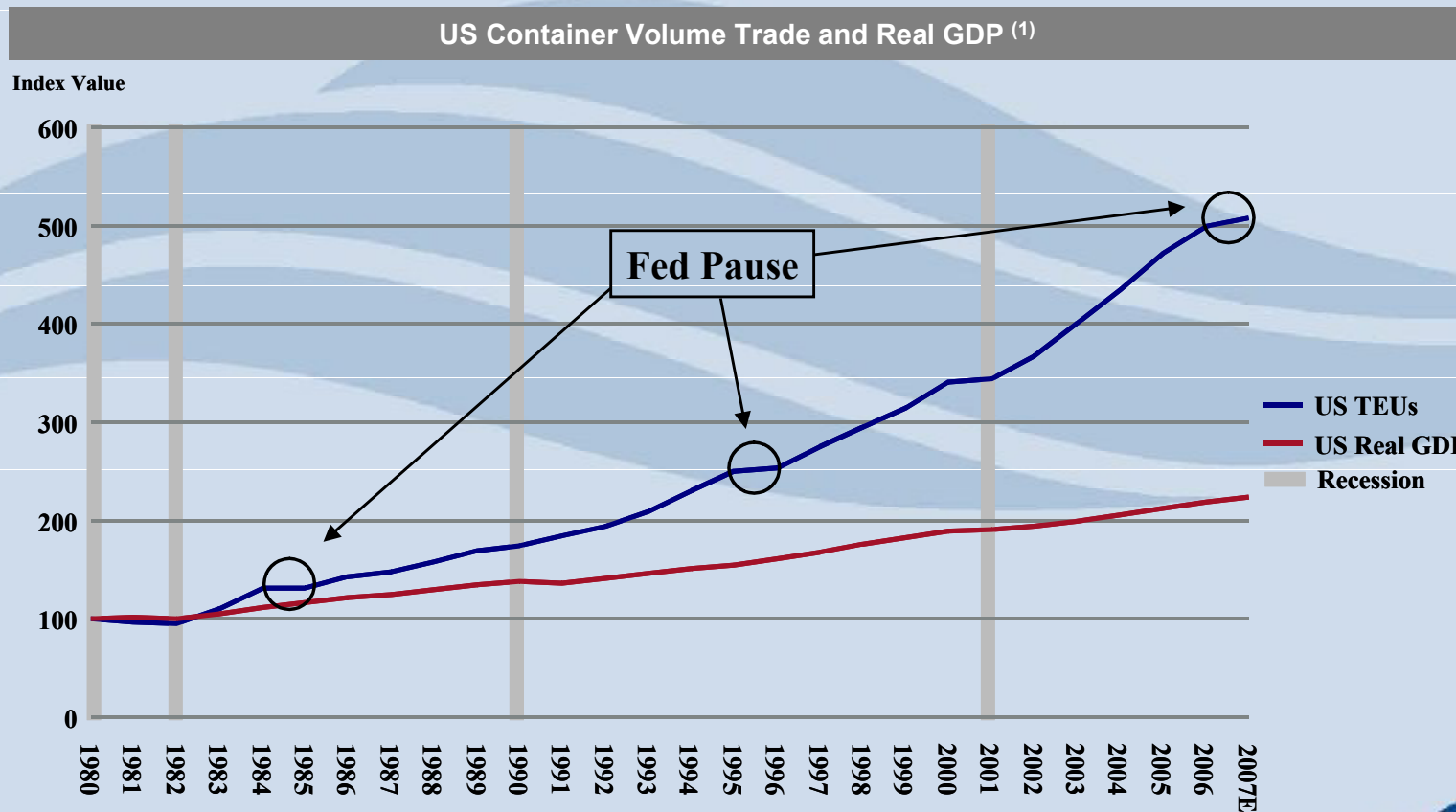
TEU Volume Growth by Coast and GDP Multiplier ⁽¹⁾

	1981 - 1990		1991 - 2000		2001 - 2007	
	TEU Growth CAGR	TEU to GDP Ratio	TEU Growth CAGR	TEU to GDP Ratio	TEU Growth CAGR	TEU to GDP Ratio
West Coast	9.8%	2.9	7.4%	2.0	9.6%	3.5
East Coast	4.8%	1.4	5.7%	1.6	8.4%	3.1
Gulf Coast	6.4%	1.9	8.3%	2.3	4.4%	1.6
National	6.8%	2.0	7.2%	2.0	6.5%	2.4
National GDP	3.3%		3.7%		2.7%	

(1) Source: AAPA; BEA; Moffatt & Nichol, 2008.

Impact of a US Recession

- Container volumes have historically been resilient to economic downturn
 - During the past two recessions (in 1990-1991 and in 2001), container growth slowed, but there was no decline in total container shipments through US ports



(1) Source: Moffatt & Nichol, 2007.

Future Growth Expectations

- Container volume growth is expected to be strong, driven primarily by:
 - Increased globalization and trade, especially with Asia
 - Continued outsourcing of the US manufacturing sector
 - Strong population growth coupled with improved hinterland connectivity
- Growth of US auto exports sustained as demand for luxury cars and trucks continues to rise in emerging markets

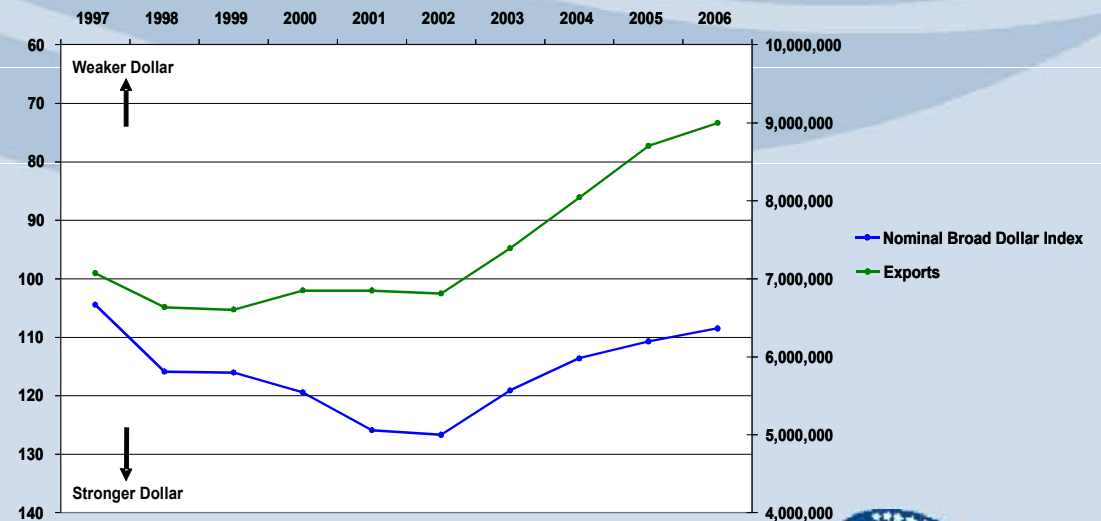
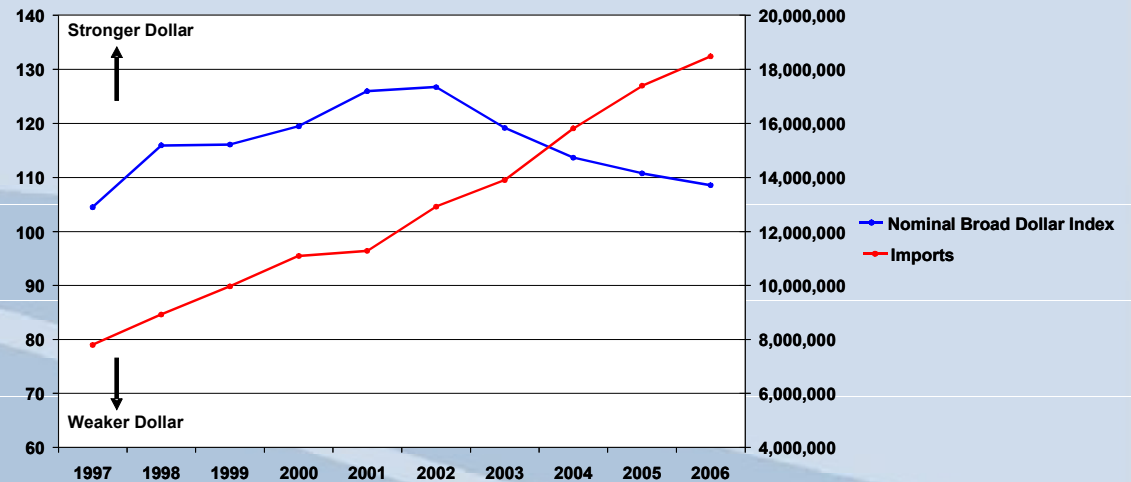
Unconstrained Container Forecasts (CAGR) ⁽¹⁾			North America Passenger Vehicle Forecast ⁽²⁾				
	2007 - 2015	2016 - 2025	2007 - 2025	Year	Exports	Imports	Total
West Coast	9.1%	6.8%	7.9%	2006	1,715,445	7,970,310	9,685,755
East Coast	5.5%	4.7%	5.1%	2032	4,523,847	14,778,029	19,301,876
Gulf Coast	5.8%	5.0%	5.4%	1990 - 2006 CAGR	3.9%	3.1%	3.2%
National	7.8%	6.2%	7.0%	2007 - 2032 CAGR	3.8%	2.4%	2.7%

(1) Source: AAPA; BEA; Moffatt & Nichol, 2007.

(2) Source: Office of Automotive Affairs; Moffatt & Nichol, 2007.

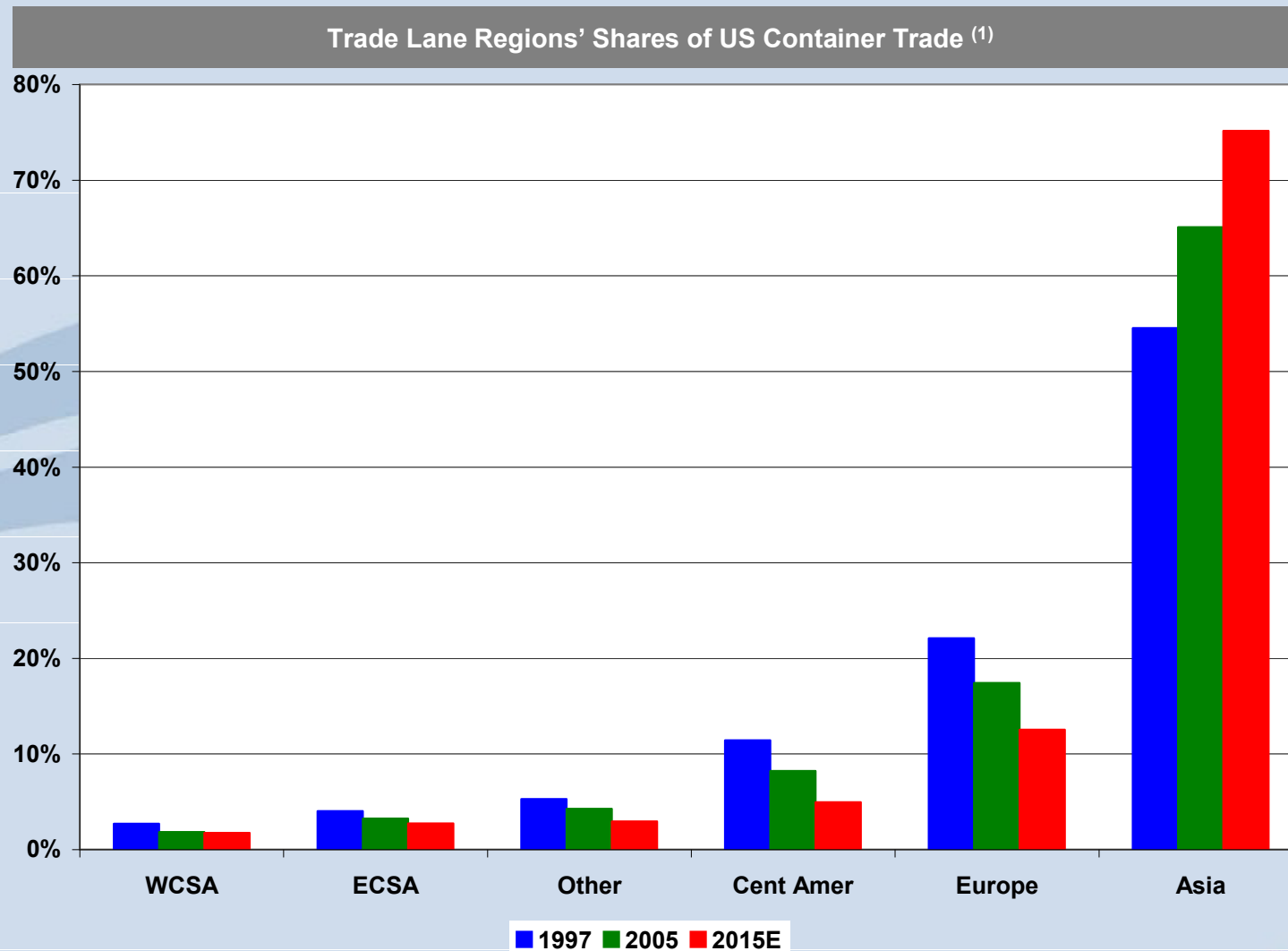
Asymmetric Currency Effects

- Comparison of Trade Weighted Dollar Index and US international container trade
- Imports and the Dollar ⁽¹⁾
 - US container imports are not correlated with dollar trends because the main source of container volume growth, Asia, pegs its currency to the US dollar
- Exports and the Dollar
 - US exporters compete in a global market place. When the dollar weakens, containerized exports increase and vice-versa



(1) Source: MarAd, Federal Reserve, Moffatt & Nichol, 2008.

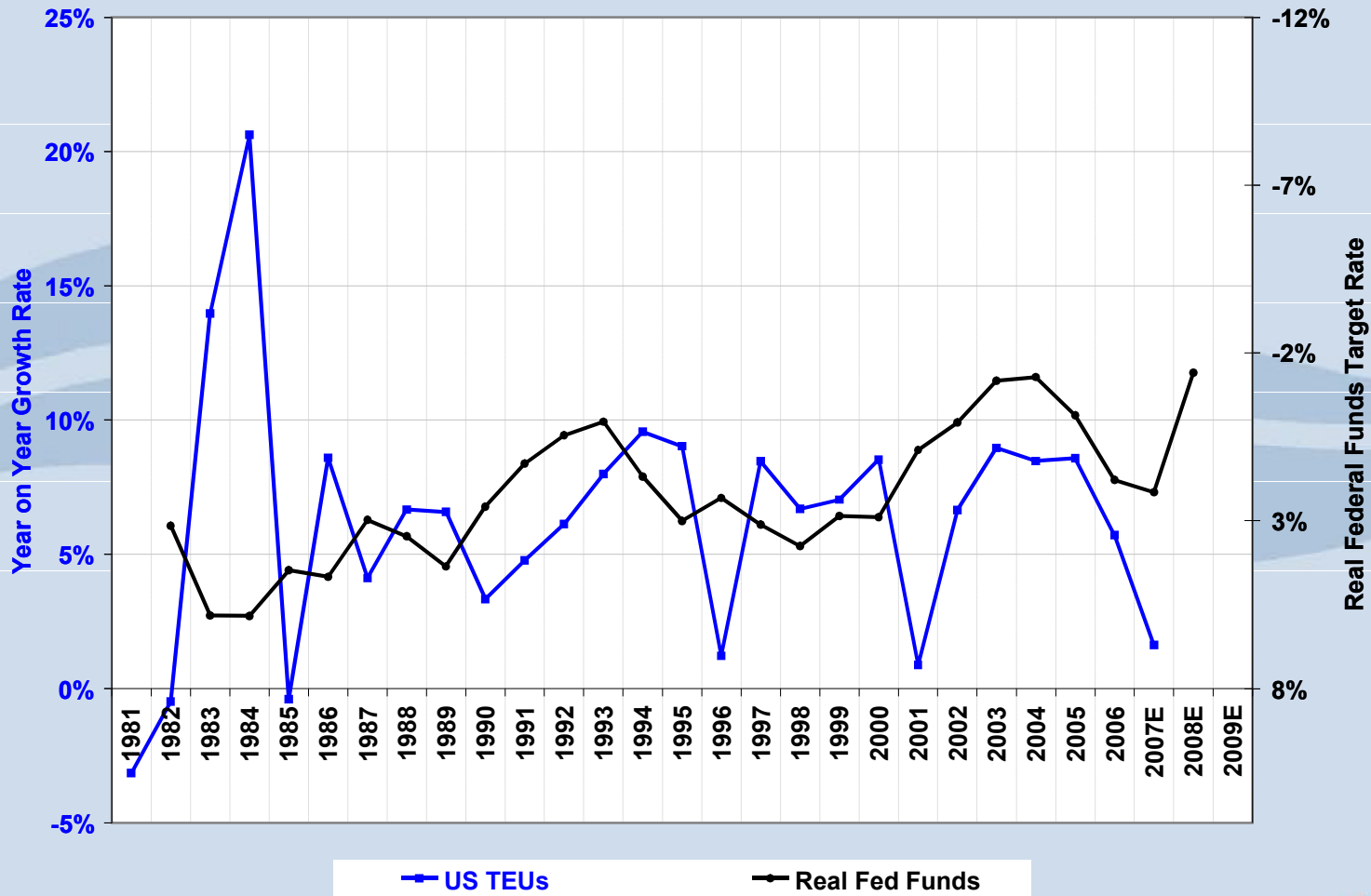
Container Trade in Trade Lane Regions



(1) Source: MarAd, PIERS, Moffatt & Nichol, 2008.

Federal Funds Target Interest Rate

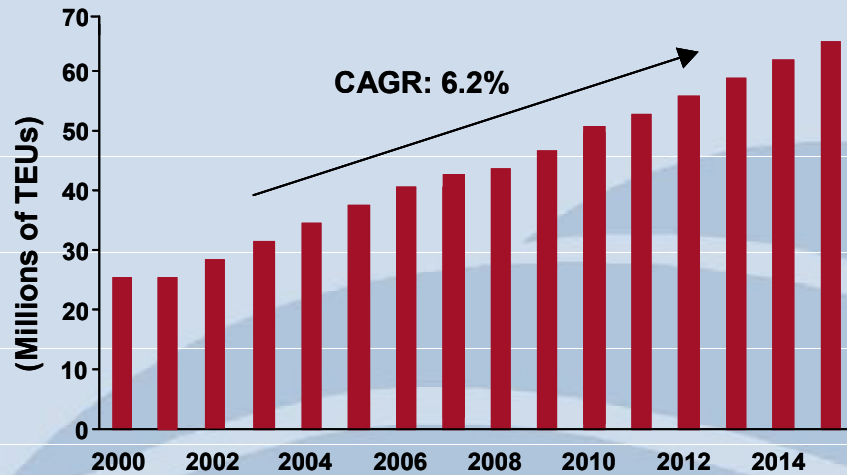
Federal Funds Target Interest Rate Leads Container Growth (1)



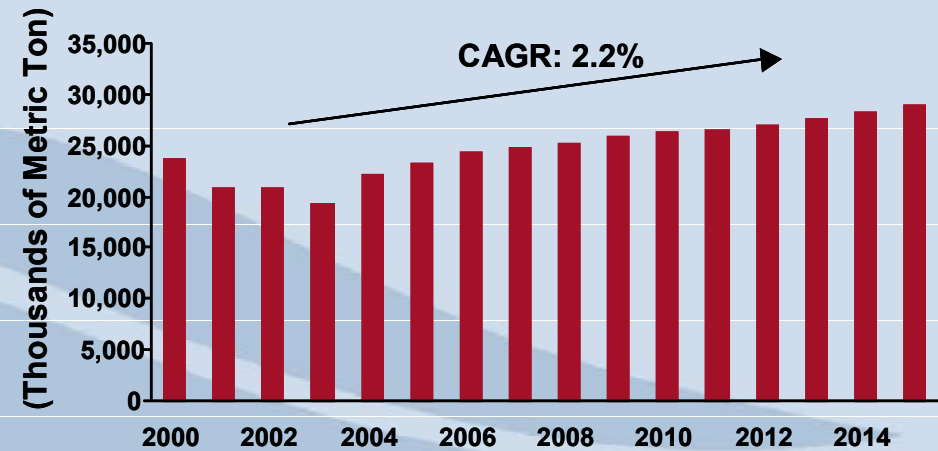
(1) Source: Federal Reserve, AAPA, Moffatt & Nichol, 2008.

Robust Growth

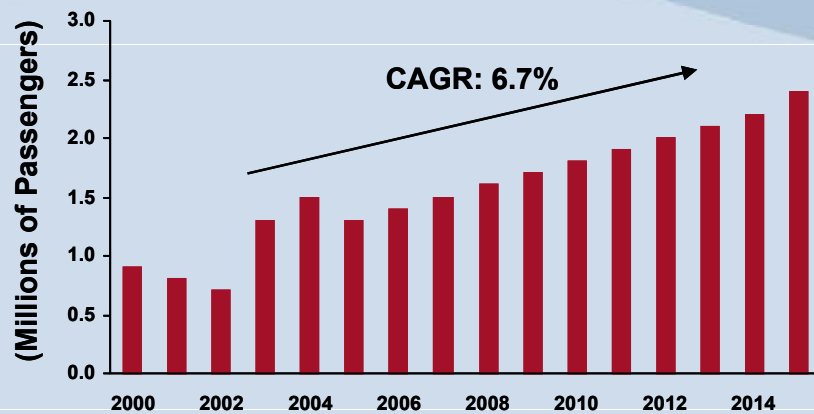
US Container Volume



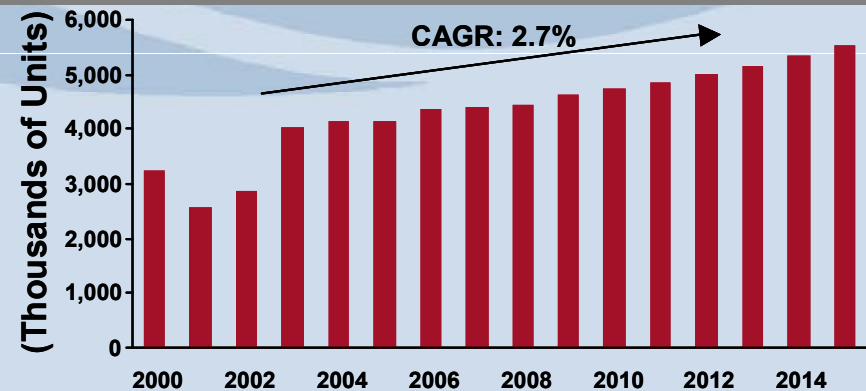
US Break-bulk Volume



US North Atlantic Cruise Volume



US Motor Vehicle Trade



Source: Moffatt & Nichol, 2008.

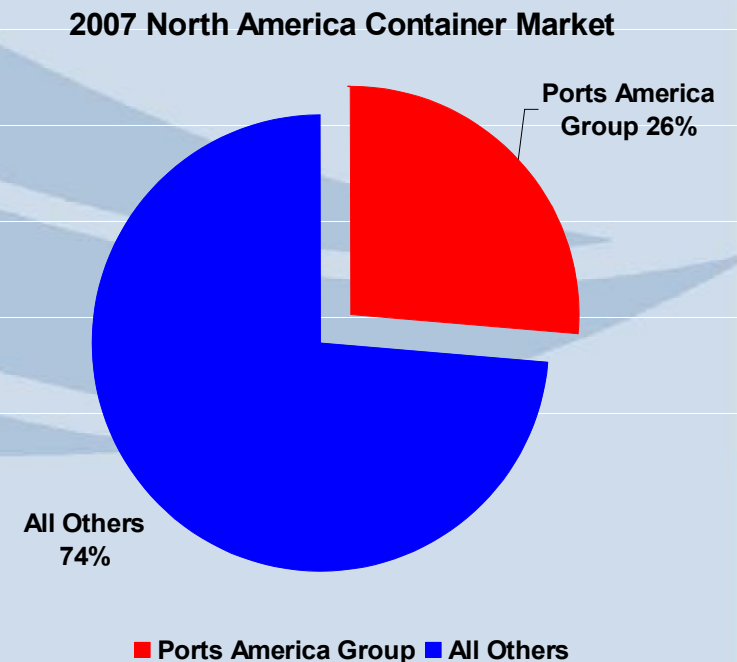
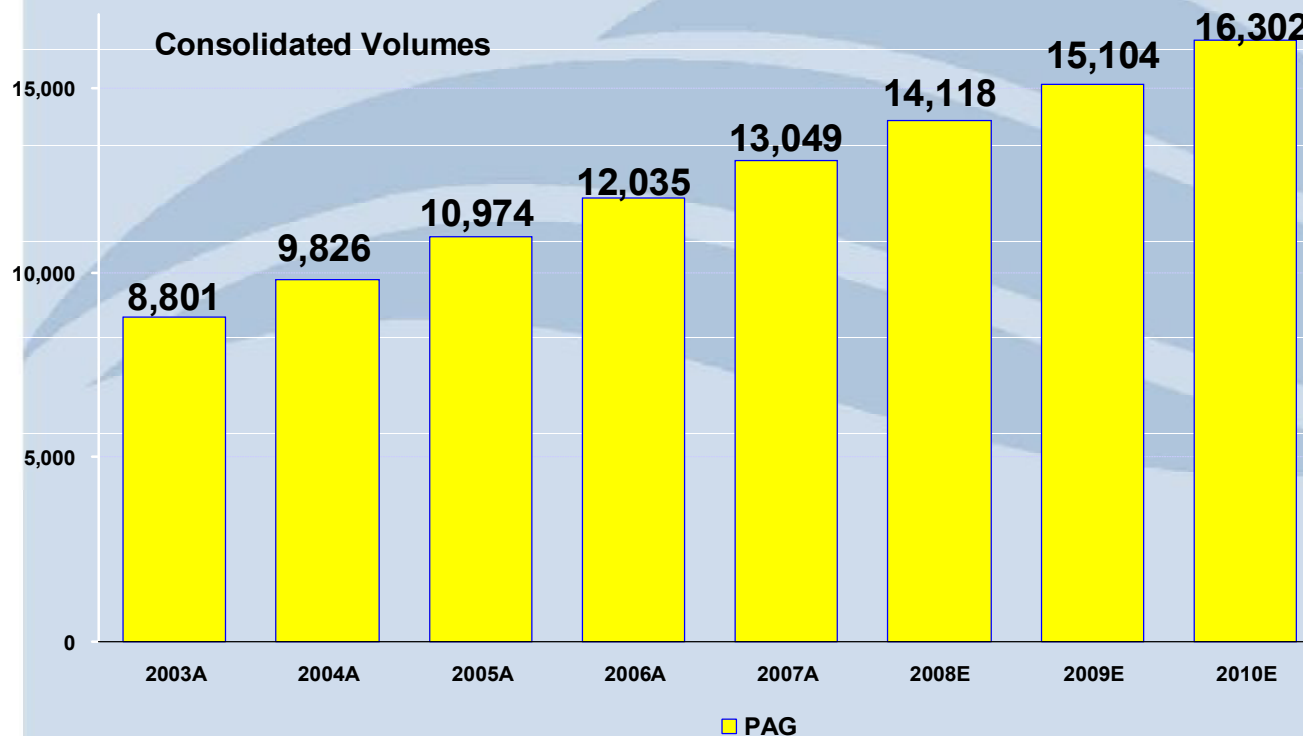
Ports America Operations



Largest Terminal Operating Company in North America

Ports America will handle over 16 million TEU's by 2010

Over 26% of North American Marketshare



Overview of Ports America

EMPLOYEES:	1,700+
UNION LABOR:	~8,000+ daily
REVENUE (2007)	\$1.6 Billion
PORTS / TERMINALS:	Operations at 50 ports and 97 terminals in the US, Mexico and Chile
STRUCTURE:	Privately held by AIG Highstar Capital
TERMINAL SERVICES:	Planning, operations, and logistics
MAJOR FACILITIES:	NY/NJ, Long Beach, Los Angeles, Savannah, Miami, Tampa, Tacoma, Oakland, Seattle, Houston, Baltimore

North American Port Sector Update

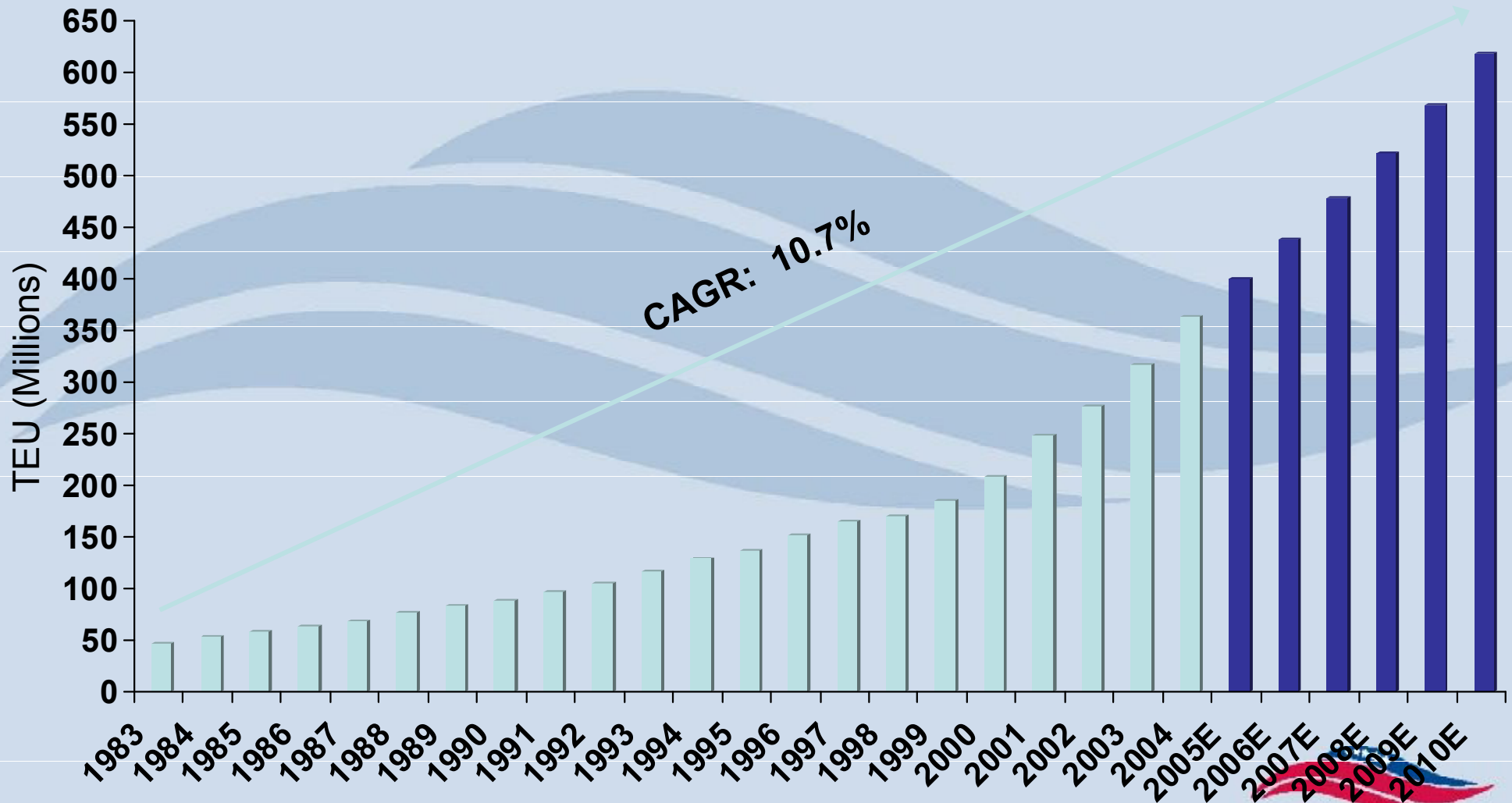
October 19, 2006

Executive Summary

- M&A activity within the port sector is at an all time high!
 - Significant portion of North American terminal assets are undergoing a strategic review by existing owners
- Proposed transaction volume is being driven by:
 - Strong container industry demand / supply fundamentals
 - Attractive purchase price multiples being paid by acquirers
 - Significant buyer interest from a relatively new source of capital – infrastructure funds
- The future landscape for port ownership in North America should be vastly different within next two years

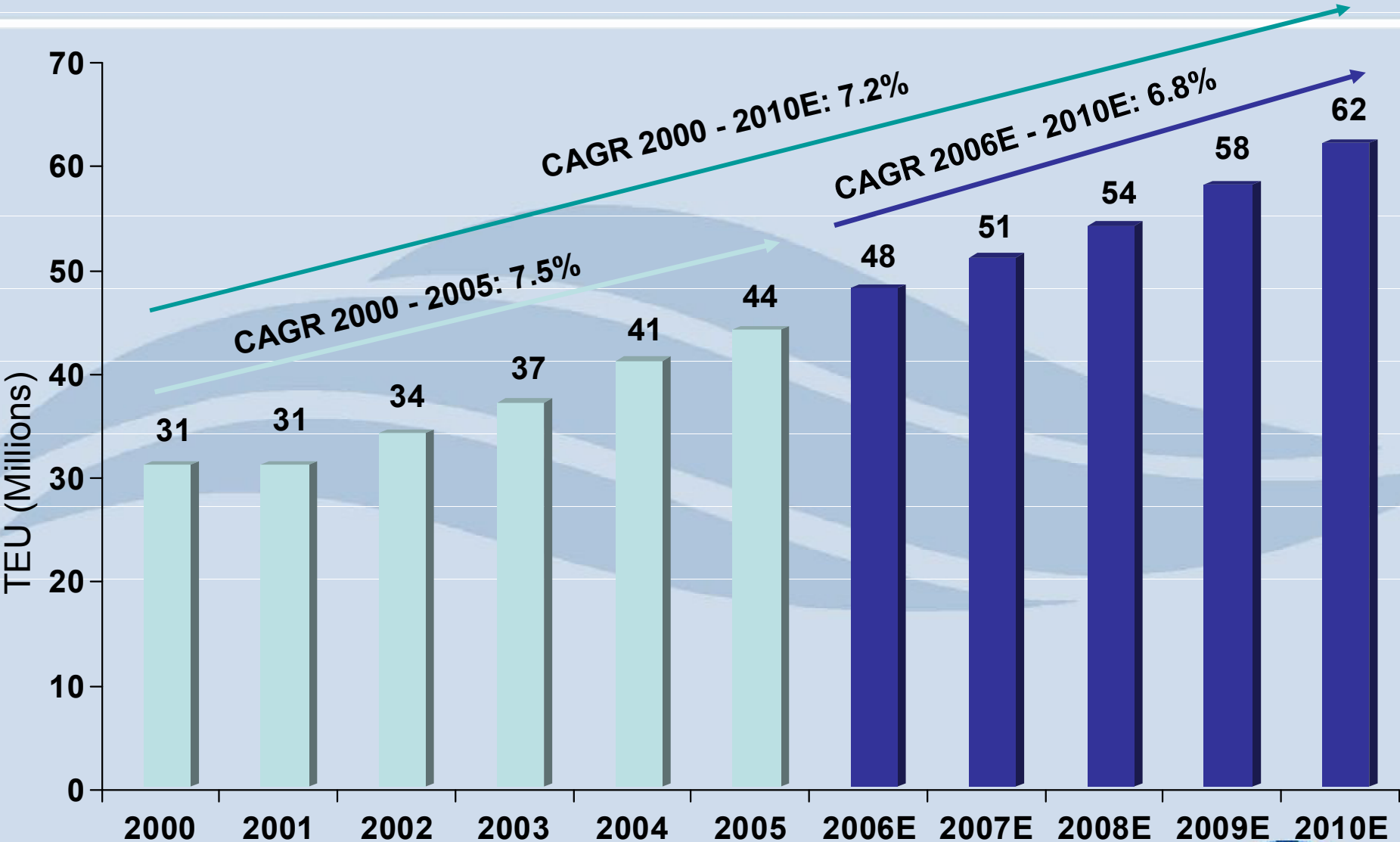
The Hockey Stick That is Reality

Total Containerized Trade



Source: Clarkson Research Services

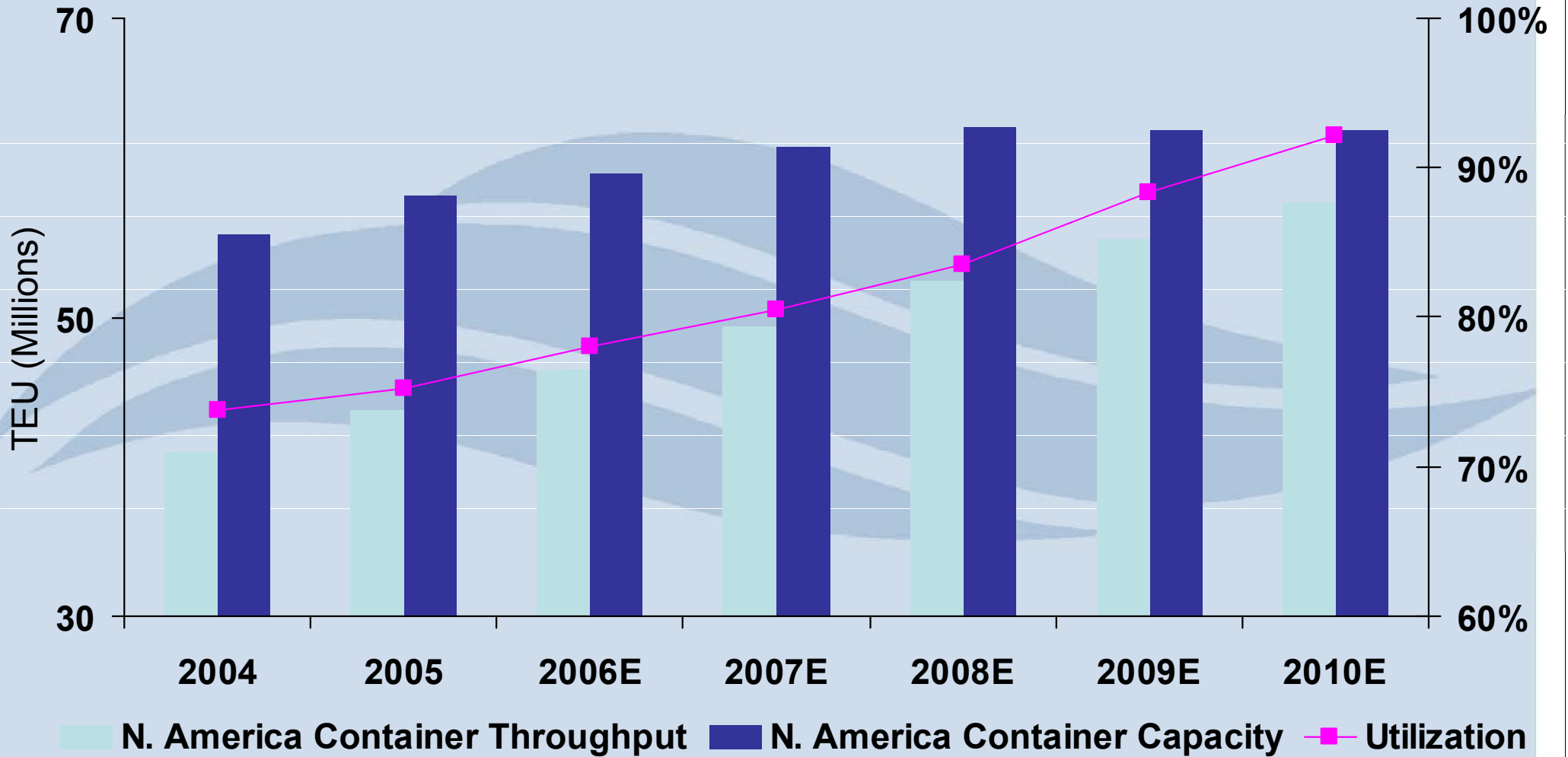
North American Container Demand



Source: Drewry



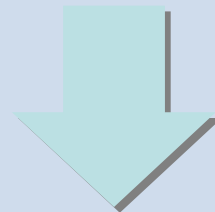
North American Containerized Trade & Capacity



Source: Drewry

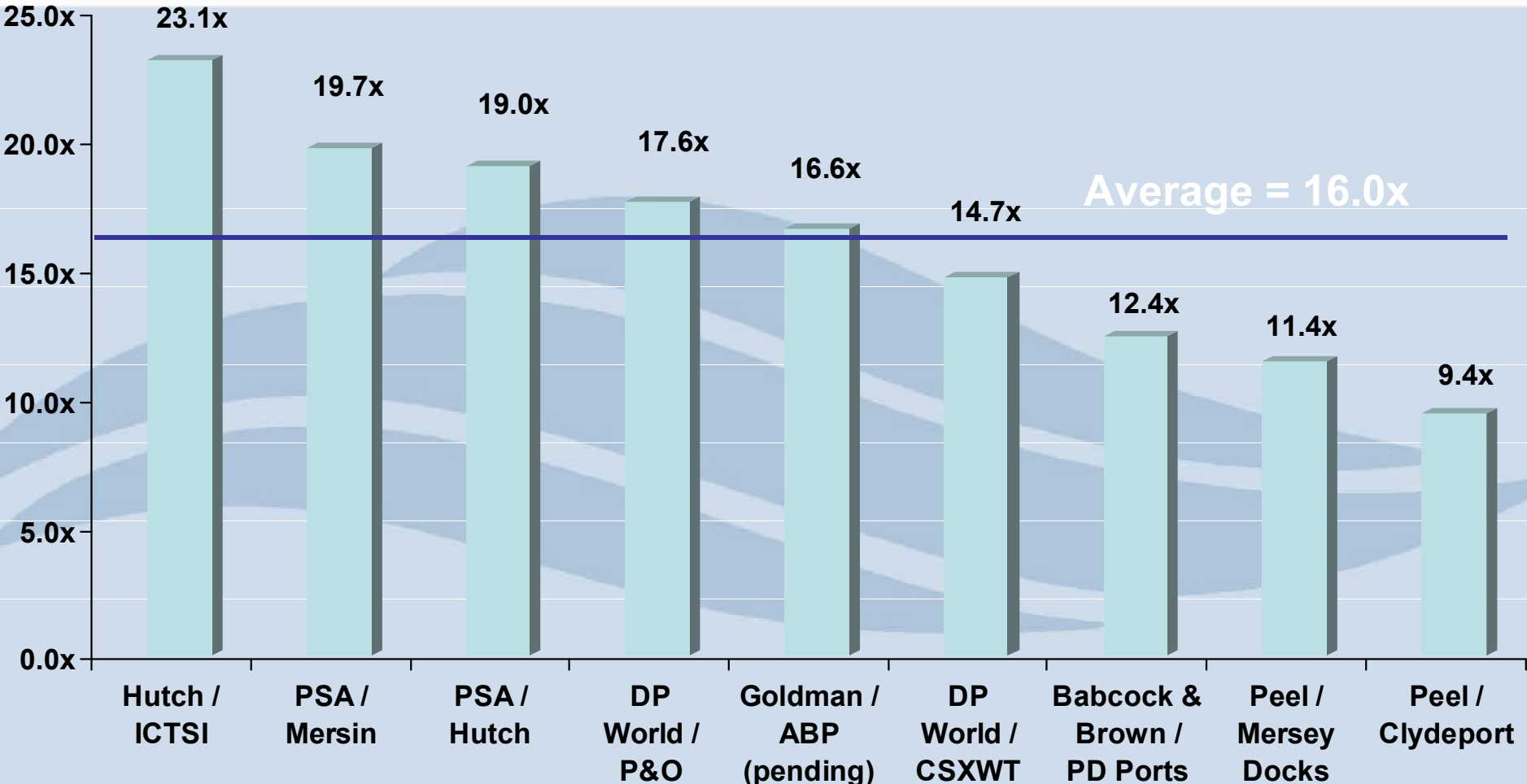
Other Key Investment Considerations

- Historical container demand has exceeded GDP growth
- Limited space within North America for port expansion projects
- Large order book of new container vessels that will require additional port slot capacity
- Environmental concerns hinder potential port expansion
- Regulatory considerations surrounding port developments
- Long lead times for new container crane deliveries



Significant incumbency advantages for existing operators

Recent Global Port Transaction Multiples



Source: Company filings / press releases



Recent Emergence of Infrastructure Funds

- Over \$5 billion of equity capital has or is in the process of being raised for targeted investments within the infrastructure world
 - Investments to focus on sectors such as ports, airports, tollroads, energy related assets (i.e. power plants and pipelines)
- These infrastructure type funds are attracted to ports due to:
 - Attractive, stable and growing cash flow profile of ports
 - Favorable supply and demand fundamentals
 - Leverageability of port sector assets
- These infrastructure funds are actively involved in the potential M&A activity within the port sector and will ultimately own more port assets
- Given the global trend toward non-governmental ownership of infrastructure assets, it is likely that infrastructure funds will continue to play an important role in shaping the ownership landscape of the North American port sector

Major Players in Infrastructure Private Equity

Goldman Sachs



Morgan Stanley

THE CARLYLE GROUP



DB RREEF

Managed in partnership with Deutsche Bank 

