The Changing Environment for Capital Investment

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Outline

- Recent Transactions
- Public-Private Partnerships
- Infrastructure as an Asset Class
- Opportunities and Challenges

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Recent Transactions

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Port of Oakland

- Long-term (50-year) concession
- Ports America / Highstar
- Phase 1
  - $150 million investment
  - 160 acres
  - 4,400 feet of quay
- Total investment of $500 million

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Port of Baltimore

- Long-term (minimum 30-year) concession
- Two bidders
  - Ports America / Highstar
  - Ceres Terminals
- Program
  - Existing terminal operations
  - 200 gross acres
  - 3,127 feet of quay (45-foot draft)
  - 700-foot barge berth (32-foot draft)
  - Construction of Berth IV

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Virginia Port Authority

- Long-term (minimum 30-year) concession
- Three unsolicited bids
  - Centerpoint Properties
  - SSA / Goldman Sachs
  - The Carlyle Group
- Program
  - All of VIT, plus rights to Craney Island
- “Apple, pear and orange”
- Further steps in process are unknown at present

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Public-Private Partnerships

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Benefits of PPP's

- Project delivery schedule compression
- Cost reduction / inflation hedge
- Best practices = ⇧ revenues and ⇩ costs
- Risk allocation to parties best-suited to manage
- Increased competition = efficiency
  - Finance
  - Development / construction
  - Operations and maintenance

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Benefits of PPP's

- Integrated approach to development and operations
- Innovation
  - Finance
  - Technology
- Defined performance metrics = Accountability
- Enhancement of relationships between public sponsor and private provider

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“Bankability”

- Financiers require:
  - Appropriate allocation of risks
  - Clearly defined and well-drafted contractual terms
  - Well-defined procurement process
  - Ability to enter into dialogue with bidders
  - Transparency

The better the understanding of these considerations the likelier that the result will be a more competitive bid price.

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Infrastructure as an Asset Class

Infrastructure as an Asset Class

- Infrastructure is attractive due to the following:
  - "Long-dated" assets
  - Increases in global trade
  - High operating leverage
  - Strong cash generation ability / potential
  - Stability of cash flows / earnings
  - Scarcity of capacity
  - "Embedded" value of land

Infrastructure as an Asset Class

- Infrastructure is considered an asset with an ability to generate stable and growing cash flows due to the following:
  - Typically "naturally" hedged against inflation
  - Strong entry barriers (scale/cost and regulation)
  - Off-takers can generally be considered to be somewhat inelastic to price, within limits
  - "Demonstrable" and "pressing" need (essential)
  - Predictable capex (maintenance and growth)

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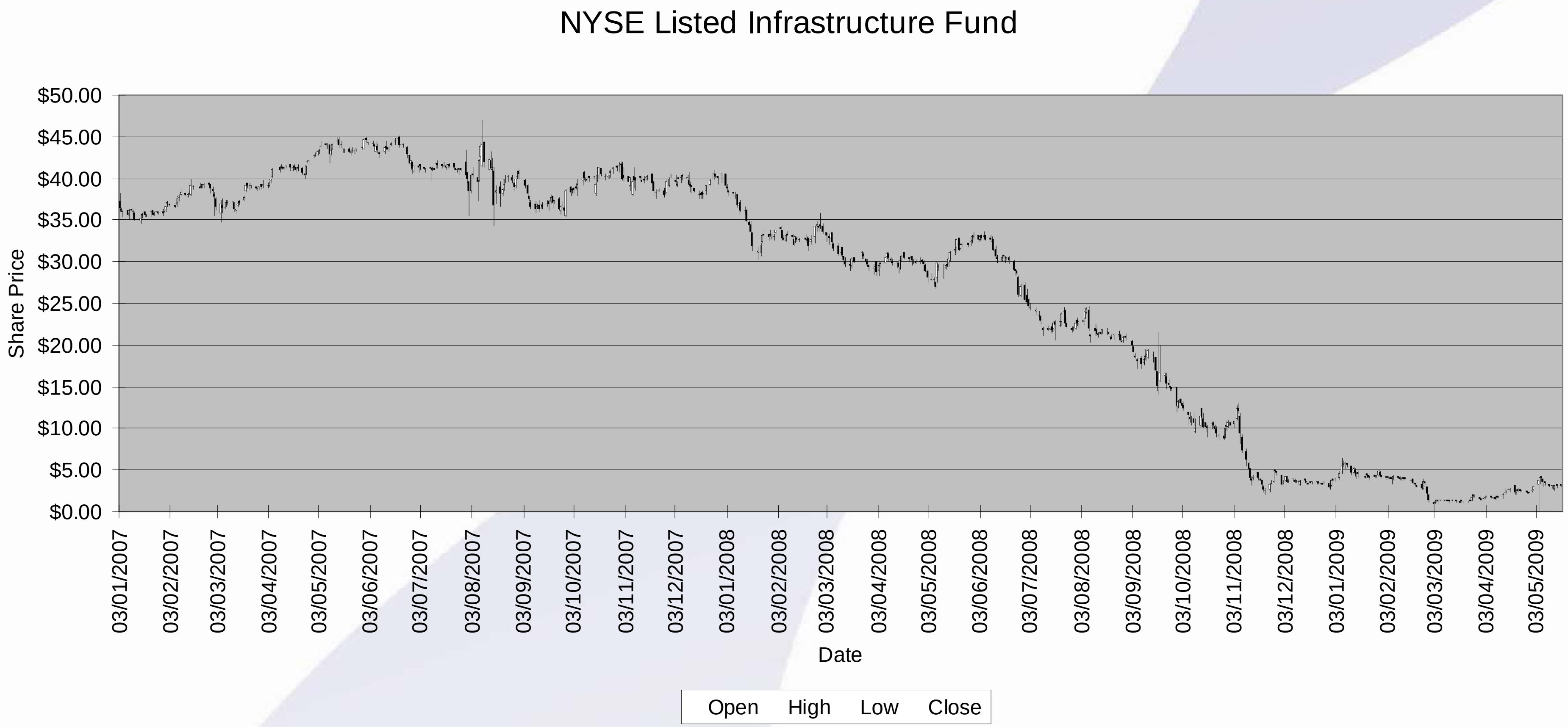
Infrastructure as an Asset Class



Infrastructure as an Asset Class

- High leverage ratios
- Aggressive revenue assumptions
- “Trophy” assets
- Soaring EV / EBITDA multiples that are unrealistic
- “Flipping” versus long-term hold
- Long-term trends have shifted, perhaps permanently
- A different approach is needed

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Opportunities and Challenges

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Opportunities and Challenges

- Public sector imperatives
  - Clear definition of objectives (yours)
  - Clear understanding of objectives (theirs)
- Understanding of risks
  - Magnitude
  - Impact
  - Corrective measures
- Internal capacity

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Opportunities and Challenges

- The "levered" model has been proven to not work effectively
- Gearing ratios ⇩
- Debt spreads ⇧

Credit is still very tight!

- Biggest upfront "cash" payment may not represent the best solution, in terms of long-term value to the public
- Incentives and penalties

Risks = Opportunities

Structure = Clarity

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THANK YOU!

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