Public Sellers & Private Buyers: Same Planet, Different Worlds

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The Problem

Sellers have plenty of projects that need investment ("P3") but infrastructure funds are not lining up to bid for them. Why?

- Neither party really knows the other very well
- Mixed / inconsistent signals
- Real & perceived project risks
- Traditional 'marriage' mechanisms (i.e., leases) are geared for strategic players, not financial sponsors

Getting to Know Each Other

- No central clearinghouse or social networking site (e.g., Facebook, Craig's List, LinkedIn, eHarmony, etc.) exists to locate or match buyers and compare investment criteria\
- If there was we might understand each other a little better

Public Sellers' Preferences

facedook **Tell us your investment preferences:**

Public Authority

Friends include:

Job creation

Voter support

Legislative Support

Tax revenue creation

Rated debt

Investment Objectives?	Job creation (votes), tax revenue…and more revenue
Planning Horizons?	Long-term. Usually 15-30 years
Hold Period?	Usually forever
Rated Debt?	Sometimes "AAA", but no less than "BBB-"
Types of Assets for Sale:	Lots of big, expensive greefield opportunities
All Permits in Place?	Depends - might get them before Panama Canal is widened
3rd Party Operator Ok?	Depends on the state. Some PA's like operational control
Steamship Partner Ok?	Traditionally, yes. They bring boxes & big ships
Financial Sponsors Ok?	Sure, we like their money but we don't know them very well
Luck in Finding Buyers?	Not really…everyone's just window shopping right now

Add Assets to Your “Friend” List

We think you might like some of these…

Add Assets to Your Portfolio

Asset Attributes

Midwest Market Access

Land for DCs

Automation Potential

Close to Open Sea

Southport, Philadelphia, PA

Galveston, TX

Bayonne, NJ

NCIT, NC

Navy Base, Charleston, SC

Jasper County, SC

Melford, NS, Canada

Sydport, NS, Canada

Click for More Projects

Each project has the potential to add significant capacity to a market currently characterized by oversupply

Typical Infra Fund Buyers' Preferences

facedook Tell us your investment preferences:

2006/2007 Vintage Infrastructure Fund

Friends Include

Inflation – proof assets
Recession – proof assets
High equity returns
Day-1 cash flowing assets
Monopoly markets
Market capacity constraints
OECD markets

Investment Objectives?	ROE – aim for mid-teens, happy to get more
Planning Horizons?	Usually 7-10 years
Hold Period?	7-10 years
Rated Debt?	None. Used project finance previously; none available now
Areas of Interest?	Big, inexpensive brownfield platforms complete w/operators
Risk Appetite of LPs:	Low
Permit Risk Ok?	Low / no tolerance
Construction Risk Ok?	Low / no tolerance
Governance Preference:	Want operational control / board level majority control
Size of Equity Checks?	Depends on size of the Fund. No financing, no equity check

Pre & Post-2007 Infra Fund Characteristics

The next generation of infrastructure funds may (have to) be different

2008+ Vintage Infrastructure Fund

Likes

Inflation – proof assets
Recession – proof assets
High equity returns
Day-1 cash flowing assets

Dislikes

Demand Risk
Leverage
Development Risk
Management Risk
Excess Capacity

2006/2007-vintage funds

- Raised as much as $6-7bn, wrote sizable equity checks
- Check size dependent upon agreements with LPs – usually some percentage of committed capital
- Access to significant leverage via project financing
- Result = higher valuations

Post-2007 funds

- Few have raised more than $1bn, some as little as $150M
- Limited access to leverage
- Result = lower valuations & fewer transactions
- Ability to pay ≠ Willingness to pay

Post-2007: Where Did All the Money Go?

It's still out there, but…

2008+ Vintage Infrastructure Fund

Infra Fund Challenges

Fewer Brownfield Opptys
Seller Price Expectations
Investment Mandates
Little / No Leverage
Operating Partners are Few
Want Operational Control
Lower Fees from LPs
Turnover Among Staff

Post-2007 landscape for infra funds is quite different

- Equity available, but more fragmented and in smaller denominations
- Limited leverage available, especially for ports
- Suitable operator partner candidates scarce
- Some LPs now looking to make investments directly, circumvent fund fees
- LPs negotiating lower fees
- Investment committees more conservative`

What’s the Disconnect?

Equity is available, projects abundant, but few marriages

1. No clearinghouse exists for finding the “right” PE fund
2. Lack of consistent market signals
3. Greenfields pose too much risk as currently offered
4. Traditional lease/development structures need tweaking

Understanding What Your Assets Can Attract

PE is by nature and necessity ‘private’

Common Issues

PE is by nature secretive

Country of LP origin matters

Like fixing existing assets

Unable to do greenfields

1. No clearinghouse exists for finding the ‘right’ fund

- PE funds are secretive out of regulatory (SEC) necessity
- PE funds by nature are competitive & do not advertize their investment criteria – like to keep competitors guessing
- The composition of each fund varies according to mandate, LP priorities and LP country of origin
- Most unable to invest in any greenfield projects – PE *traditionally aims to add value to existing operations, not start from scratch*
- Most infra fund LPs are non-US which raises FIRPTA issues (see John Cavanaugh – June 10th!)

Market Signals Matter

Consistency will help both get on the same page

Potential Deal Examples

PA Turnpike

MOTBY

VPA / VIT

Philadelphia

NCIT

Melford

Sydport

2. Mixed market signals from public sellers

- Lack of standardization across states/regions
- Seller's "ask" can be vague resulting in wildly different bids for the same asset making comparison of bids difficult
- Opaque decision-making processes and timelines
- Construction / environmental permits not always secured at time of process
- Projects sometimes years away from being shovel-ready
- During bid process asset sale can be derailed by politics
- No moratorium on new capacity projects – always more in the pipeline by competing municipalities
- New entrants may face unlevel playing fields

Greenfields

Too much hair on some projects

Key Risks

Permit Risk
Construction Risk
Political Risk
Market Risk
Over-supply of Capacity
Revenue Risks
Labor Risk
Landside Access Risk
Valuation challenges

3. Greenfield project risks & issues

- Permits not in place or are challenged by stakeholders
- No near-term constraints to regional capacity
- Market demand often not well delineated / proven
- Existing carriers/MTOs still repairing balance sheets
- Vintage fund assets repairing balance sheets
- Landside infrastructure constraints / shortfalls

Risk & Incentive Structures

Time to consider something other than 'plain vanilla'

Align Risks & Rewards

Shorter hold periods

Different from 'Strategics'

Front end risks

Back end rewards

4. Consider non-traditional risk & incentive structures

- Understand who the buyer is and the buyer's timeline (usually shorter than yours!)
- Willing to share risk and reward with sellers around those shorter timelines
- Some buyers may not want to hold forever
- Plain-vanilla development and financing approach won't cut it in current environment

Draw on Successful Processes Elsewhere

South & Central American processes may provide some guidance

Examples of P3 elsewhere

- Peru
- Colombia
- Argentina
- Brazil
- Mexico
- Chile

LatAm risks & rewards often easier to quantify

- National-level standardization of procurement procedures & objectives across asset opportunities
- Seller's "ask" criteria usually laid out explicitly making cross-comparisons easier (apples-apples instead of apples-oranges)
- Permits and necessary construction authorizations in place at time of process – practically shovel ready
- Buyers on the hook for most costs and risks, but upside potential is substantial
- Moratorium on new capacity projects in same market not uncommon - allows winning bidder to pay for investment
- Market demand usually easily identifiable in highly concentrated urban areas
- Most bidders have been "strategics", not "sponsors"

Conclusion

Some high level steps that may help facilitate more P3 investment

Next Steps

Consistency
Establish criteria
Define Risks / Rewards
Non-traditional leases

Finding the "right" fund partner depends on what's offered

- Capital formation difficult for widely disparate offerings and political circumstances

Funds need clear market signals from states & municipalities

- Difficult to set up large infra funds in advance of knowing what criteria municipalities will establish
- More consistent signals & criteria will draw capital

Greenfield risks require more upfront spade work by sellers

- Eliminate ambiguity, help make risks more quantifiable

Tweak plain-vanilla lease & development structures

- Several options exist to structure some (but not all) greenfield project agreements and make more palatable

Thank You

Questions & Answers

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