Global Finance Sources for Hemispheric Port Development

American Association of Port Authorities

Centennial AAPA Spring Conference

March 19-20, 2012 | Washington, DC

BMO Capital Markets

AAPA American Association of Port Authorities

Jeffrey D. Holt, Managing Director
BMO Capital Markets

Ports Have Always Been the Most Private of Public Enterprises

North American Landlord Ports

- Prince Rupert
- Vancouver
- Seattle
- Portland
- Oakland
- Hueneme
- Los Angeles
- Long Beach
- San Diego
- Galveston
- Mobile
- Tampa
- Miami
- Everglades
- Jacksonville
- Baltimore
- New York
- Halifax
- Montreal
- Tacoma

The value of the location is in the business enterprise

- Who owns the business?
- Who owns the revenues?
- Operating ports are valued much higher than landlord ports

North American Operating Ports

- Houston
- Charleston
- Savannah
- Virginia (partial)

The value of the location is in the business enterprise

Credit vs. Revenue

- If a Port has the revenue (historic), it has credit
- Port can borrow at very low rates - tax exempt in the U.S.
- The downturn has affected landlord credit everywhere
- Project financing is all about reducing uncertainties
  - Firm contracts
  - Carrier commitments

Going Concern Credit vs. Project Finance

Private Sector Participation

- Interest in Having the Private Sector Participate in the Project or Terminal
  - Authority may not want to take the risk with their existing revenues
  - Authority may not have the existing revenue, nor the credit
  - The revenues may be too uncertain, and therefore the risk may be too great to get additional credit
- Private Sector Resources
  - The private sector has credit
  - The revenue case must be compelling and should cover debt service plus a decent return on their equity
- There is Private Sector demand for Port Exposure
  - Infrastructure funds
  - Operators
  - Carriers

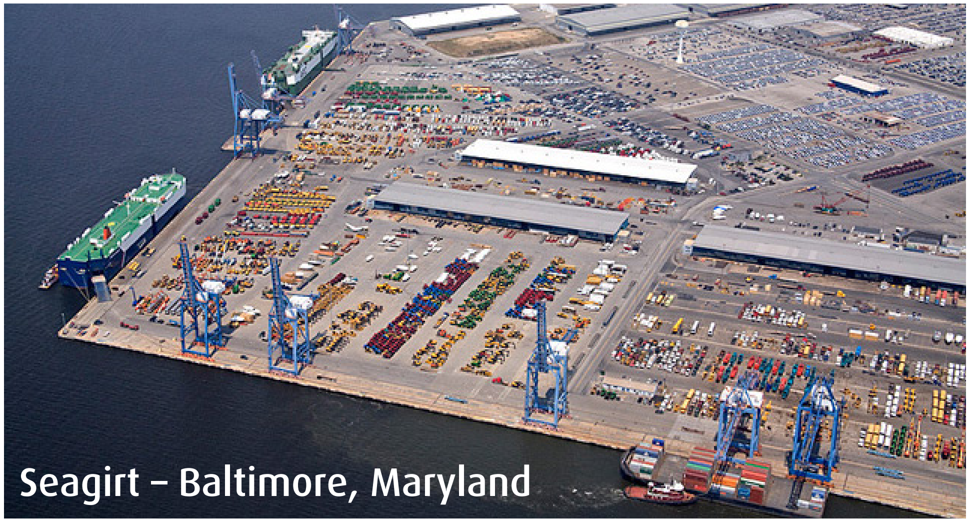
Interested Infrastructure Funds, Operators, and Carriers

	Infrastructure Funds	Operators	Carriers
Potential Partners	Highstar/ Ports America, GSIP/ Carrix, Carlyle, Brookfield, Ontario Teachers/ GCT, Fortress	Highstar/ Ports America, GSIP/ Carrix, Ontario Teachers/ GCT, Maher Terminals, DPW	
Source of assets	Pension funds	Family-owned platforms acquired by infrastructure funds	
Preferred Investment Level	Minimum of $100mm, preferred $300mm+	Minimum of $100mm, preferred $300mm+	
Interest in Sector	Interest is high	Interest is high	Low appetite for contractual commitments Maersk made an attempt
Preferences	Prefers negotiated transactions; term of investment varies	Prefers negotiated transactions; term of investment varies	

Private Sector Participation Diversifies Risk Away From Port

Greenfield vs. Existing Business

- Greenfield Container Terminals bear many high risks
  - Without contracted volume, market risk is too high
  - With contracted volume, credit risk is carrier-driven
  - Funds have not stepped up to Greenfield opportunities
- Expanding existing facilities in proven gateways does work
  - Oakland, Baltimore proved well the premise
    - Lower available (going concern) credit in most ports
    - Expansion only creates increased competition for other terminal operators in the gateway
  - For operating Ports any partial concession cannibalizes the business
    - VPA



Concessions to Private Sector Participants can be a Successful Alternative to Traditional Public Funding

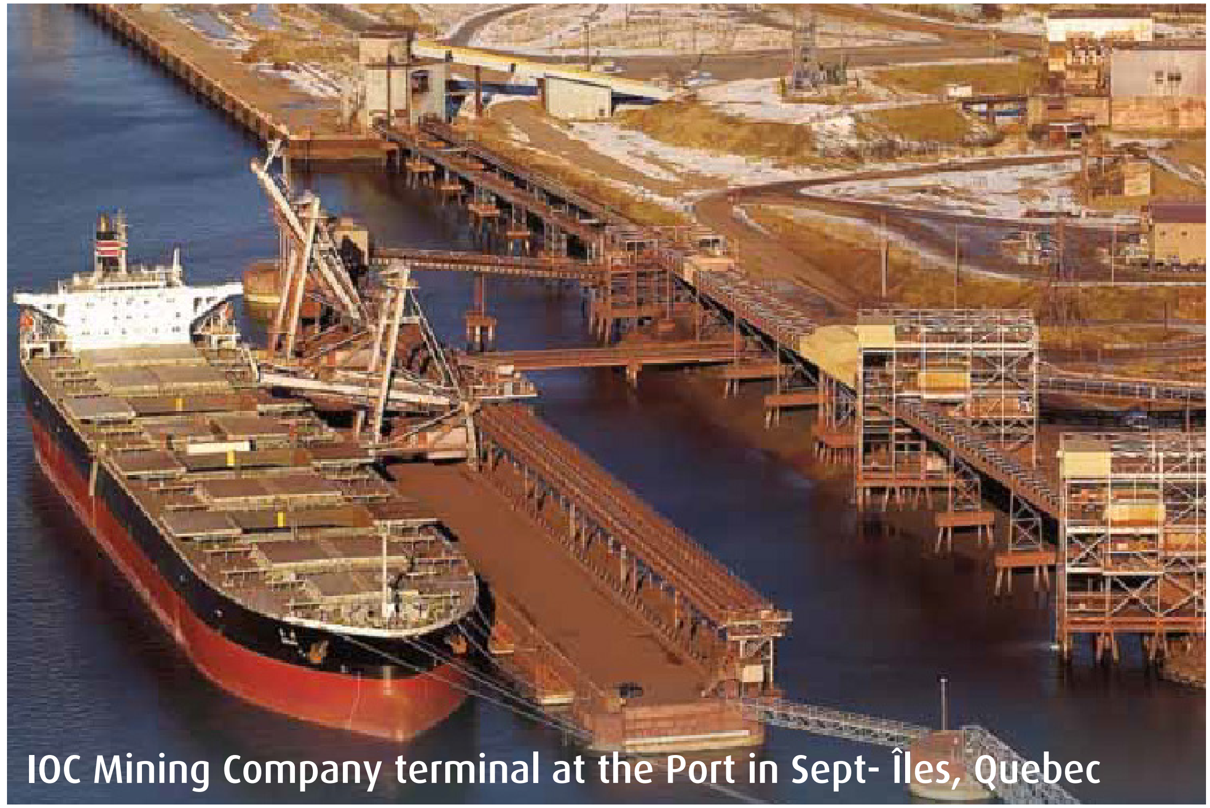
Government Subsidies are Decreasing

Federal US Subsidies have Changed to Loans

- Other than RRIF for rail elements, TIFIA has not been available to the Port Sector
- States and counties are putting pressure on ports to take away existing tax subsidies
  - VPA – Gas Tax
  - Seattle – Prop Tax
  - Houston, probably no more bond elections

Canadian Government subsidies center around Gateway developments and Plan Nord

- Oil, gas, and minerals rule the day
- Plan Nord - $500 mm



IOC Mining Company terminal at the Port in Sept- Îles, Quebec

Source: Quebec Mining Association

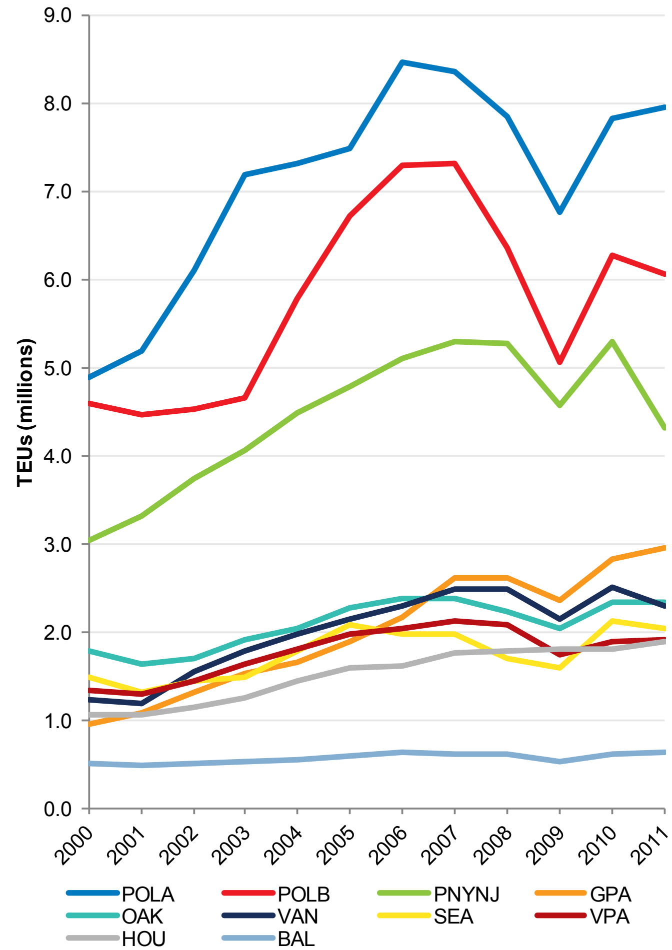
Projects are less likely to receive Gov't support going forward

There is Higher Risk in Container Terminals Recently

- Carriers are hurting
  - NOL stated last week that 5% of the world's fleet has been "parked"
  - Carriers will move containers for a price
    - Grand Alliance to Tacoma
    - COSCO to Prince Rupert before that
    - T-18's credit premise was that containers will continue to move through the Seattle gateway and that a certain amount of terminal capacity was always necessary in Seattle
      - No longer the premise
      - When Seattle volumes are down SSA / GS also competing against other Seattle terminals

- Funds are very concerned about risks in container ports
  - Volumes down 40% in some gateways during the recession
  - Carriers and BCO's have assessed alternative gateways
    - Costs and distance – LA / LB issues
    - Prince Rupert Worked
    - Rail Consolidation worked – RRs can guarantee delivery times

Historical Port Volume (million TEUs)



Source: AAPA and Port News

Traditional High Values in Container Terminals have changed and are more complex

Many Government Sponsors are looking at their Port Gateway Assets

- North American Model is individual Silos
  - All compete on price
  - All compete for Gov't subsidies
  - All eventually gets passed on to Terminal Operators and Carriers as lower operating cost
- Ports Going Concern Credit has narrowed considerably in recent years
  - Many ports cannot meet the capital needs of their tenants
  - Many Ports are facing deteriorating infrastructure
- Governments are reviewing alternatives
  - Galveston
  - Chicago – scarce waterfront land
  - Delaware
    - Ability to "harvest" the asset's value
    - Shift of 100% of Cap Ex and Facility condition risk to private sector going forward
    - Opportunity to dramatically increase investment in the gateway immediately
      - Jobs & Economic development

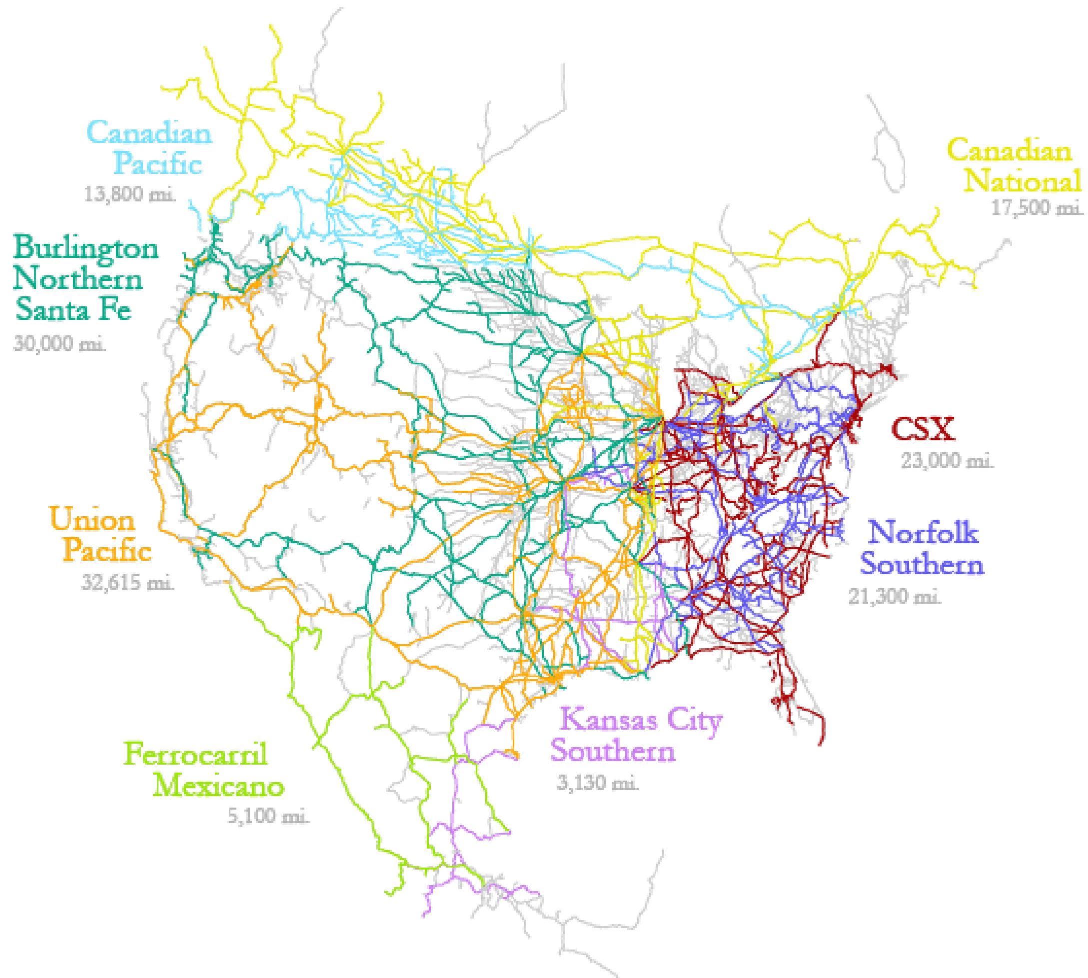
Source: World Trade Center Delaware

The Private Sector can change a Landlord Gateway Dramatically

Other Changes are Affecting North American Shipping Preferences

- Panama Canal will have some impact
  - No one can say until it happens
  - Pricing of the Canal
  - Larger Ships need to come online

- Railroad Consolidation has been very successful
  - Efficiencies and speed improvements
  - Service improvements
  - Prices have come down
  - Railroads have forced changes in shipping
    - Shipping on the Great Lakes is down
      - Seasonal
      - High Costs
    - Barge traffic down Mississippi is still competitive
    - Barge quantities are no longer necessary



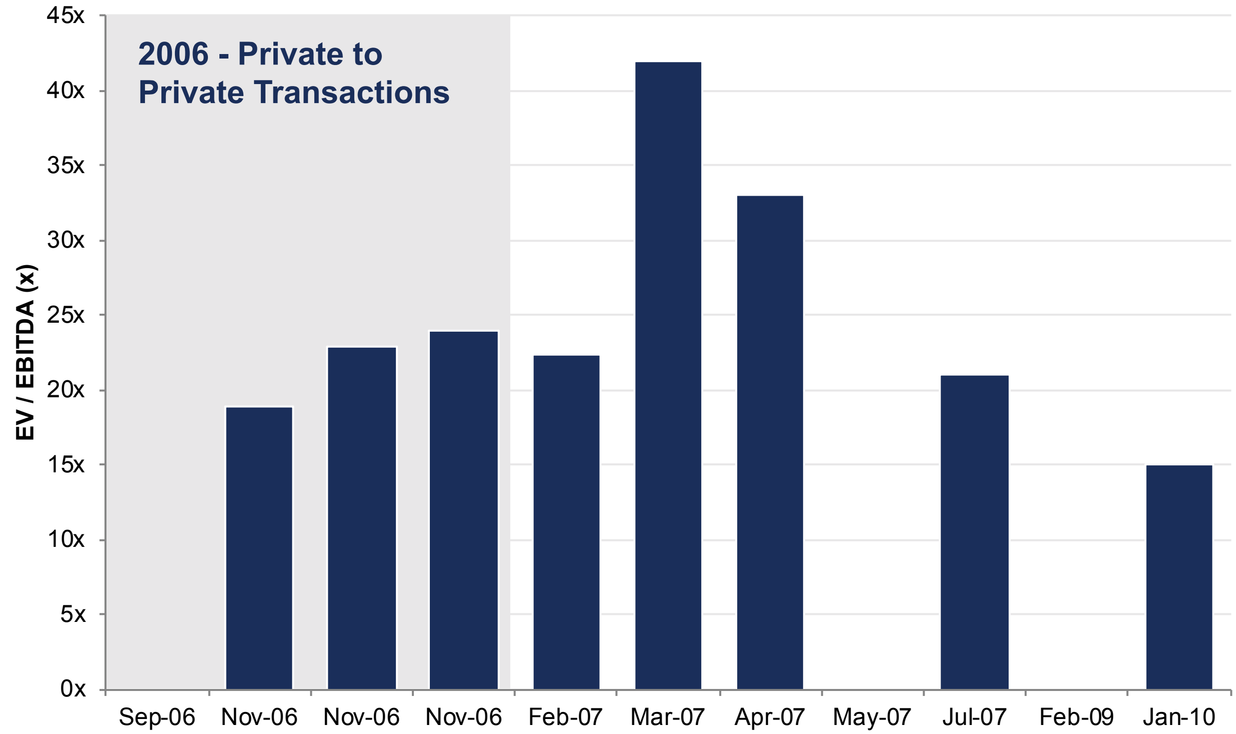
Source: Radicalcartography, Bill Rankin, 2005

The Industry is constantly changing as competitive pressures within modes and between modes changes – Which does and will affect credit available to various physical assets

Players are Changing

- Platforms are strapped and are still unburying from high value days
  - PortsAmerica
  - SSA/GS
  - Maher/Deutsche Bank
- Strategics are few and not interested in containers
- Many new funds still searching for operating arms
  - VPA interest (VIT)

Review of Notable Transactions | EV to EBITDA Multiples

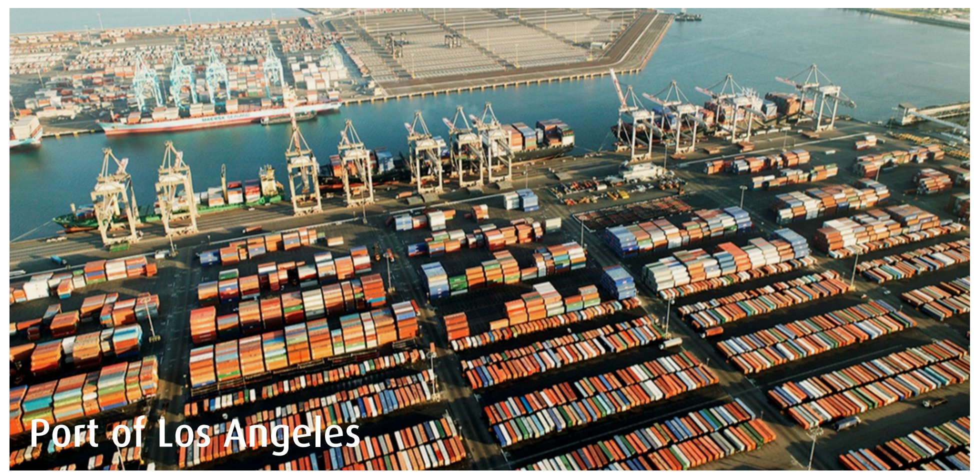


Target	40% in 6 Hanjin Term.	P&O No. America	Halterm	4 OOIL Terminals	80% Montreal Gateway	Maher	Amports	MTC	49% Carrix	Oakland B20-24	Baltimore's Seagirt
Acquirer	Macquarie	Highstar	Macquarie	OTPP	Morgan Stanley	RREEF	Highstar	Highstar	Goldman IP	Highstar / PA	Highstar / PA

Are there Global Sources for Hemispheric Port Funding?

Part I – Container Ports

- Landlord Container Ports
  - Demand is still high in certain operating platforms
  - Values/Price of the assets has changed given shift
  - Many Ports still undervalue their assets given their desire to trade market value for market share, favoring negotiated transactions with carriers
- Operating Ports are still the highest on the list
  - Face the cannibalization issue
  - VPA – Maersk



Container Terminals are still considered valuable assets by the private sector

Are there Global Sources for Hemispheric Port Funding?

Part II – Single Purpose Resource Ports

- Emerging Demand for Energy is driving high values and improved credit for such terminals / developments
  - Mostly in Canada and energy resource driven
    - Kitimat
    - Coal terminals (demand in US NW but great environmental opposition)
    - Jobs vs environmental
    - First Nations Issues in Canada
  - New Developments possible with throughput guarantees
    - Adriana
    - Arch Coal

Source: K.T. Industrial Development Society, Courtesy of Cambria Gordon



These developments could possibly be the largest movers in the space over the next decade

Are there Global Sources for Hemispheric Port Funding?

Part III – Bulk Ports

- Funds are focused on bulk terminals
- Strategics are focused on bulk terminals
  - Less volatility than containers
  - Rollups possible (to get size exposure to sector)

Source: Alabama State Port Authority

There is more demand than ever for port assets in all sectors – depending on price!

Disclaimer

These materials are confidential and proprietary to, and may not be reproduced, disseminated or referred to, in whole or in part without the prior consent of BMO Capital Markets ("BMO"). These materials have been prepared exclusively for the BMO client or potential client to which such materials are delivered and may not be used for any purpose other than as authorized in writing by BMO. BMO assumes no responsibility for verification of the information in these materials, and no representation or warranty is made as to the accuracy or completeness of such information. BMO assumes no obligation to correct or update these materials. These materials do not contain all information that may be required to evaluate, and do not constitute a recommendation with respect to, any transaction or matter. Any recipient of these materials should conduct its own independent analysis of the matters referred to herein.

"BMO Capital Markets" is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, Harris N.A. and Bank of Montreal Ireland p.l.c., and the institutional broker dealer businesses of BMO Capital Markets Corp., BMO Nesbitt Burns Trading Corp. S.A., BMO Nesbitt Burns Securities Limited and BMO Capital Markets GKST Inc. in the U.S., BMO Nesbitt Burns Inc. in Canada, Europe and Asia, BMO Nesbitt Burns Ltée/Ltd. in Canada, BMO Capital Markets Limited in Europe, Asia and Australia, and BMO Advisors Private Limited in India.

BMO does not provide tax or legal advice. Any discussion of tax matters in these materials (i) is not intended to be used, and cannot be used or relied upon, for the purposes of avoiding any tax penalties and (ii) may have been written in connection with the "promotion or marketing" of the transaction or matter described herein. Accordingly, the recipient should seek advice based on its particular circumstances from an independent tax advisor.