Global Finance Sources for Hemispheric Port Development

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Frequently asked questions on private source of funding

MOFFATT & NICHOL

- How do we tap private capital for our project?
  - Confusion over the different types and flavors of private capital
  - Uncertainty over the criteria used by private capital for participating
- Why aren’t we getting a response from the private equity markets to this offering?
  - Project seems like a win-win, but little or no response
  - Are we asking or expecting too much?

The usual port funding players

Larger role envisioned for private funding, but appetite will vary by project

Private equity	Infrastructure funds, e.g., Macquarie, GS, MS, GIP, Alinda
Strategic operators	Hutchison, APMT, SSA and others
Federal & municipal	Rated debt, grants
Multilateral institutions	IADB, IFC – equity & debt participation

First, a few questions about the project

A few simple ways to winnow down the field of options

Market profile

- Location, location, location
- OECD or emerging market?
- Well-defined (discrete boundaries or commodities) or ambiguous?
- Monopoly or highly competitive

Project size

- Private capital comes in all sizes
- Debt required (rated or unrated)?
- Equity requirement?
- Length of concession and tenor debt

Governance & execution risks

- Greenfield or brownfield?
- Government policies well defined?
- Level playing field for participants?
- Governance: role to be played by public after transaction: control position, regulatory, other?

Private equity partner recap

PE limping out of the recession and still locked into “low risk” OECD markets

Market risk profile

- Prefer OECD market exposure
- Monopoly or oligopoly market scenarios
- Require clear government policy direction
- **Dislike** emerging market and greenfield risk

Preferred types of assets

- Want “**day-1**” cash flowing assets
- Dislike greenfield – **cannot value or manage greenfield risks**
- Heavily constrained by the type of investors in their fund
- Want long-term assets but usually look to exit in 5-7 years

Ticket sizes

- **Size of the PE fund <u>will dictate the size equity check</u> it can write**
- Smaller funds will **need to club** with others **to write larger checks**
- Availability of leverage will impact size
  - **Less leverage = lower multiple**

Return targets & expectations

- Inflation-adjusted returns sought
- Moderate return levels expected
- OECD markets typically provide **lower returns,** but **stable policy** and **rule-based environment is attractive**

Willingness to tackle **complex projects** and risks is usually **limited**

Strategic operator recap

Operators investing where returns are higher, but balance sheets vary widely

Market risk profile

- Tackle both OECD & emerging markets
- Gravitate toward high growth markets
- Need clear government policies, well defined areas of responsibility
- Avoid uneven investment playing fields

Preferred types of assets

- Brownfield and greenfield
- Long-term concessions or leases

Ticket sizes

- Ability to pay dictated by **balance sheet and credit-worthiness (of company and project)**
- Some operators have **credit ratings**, but **many do not –** this will affect debt and partnering equation
- Smaller operators may be **unable to access capital markets directly**

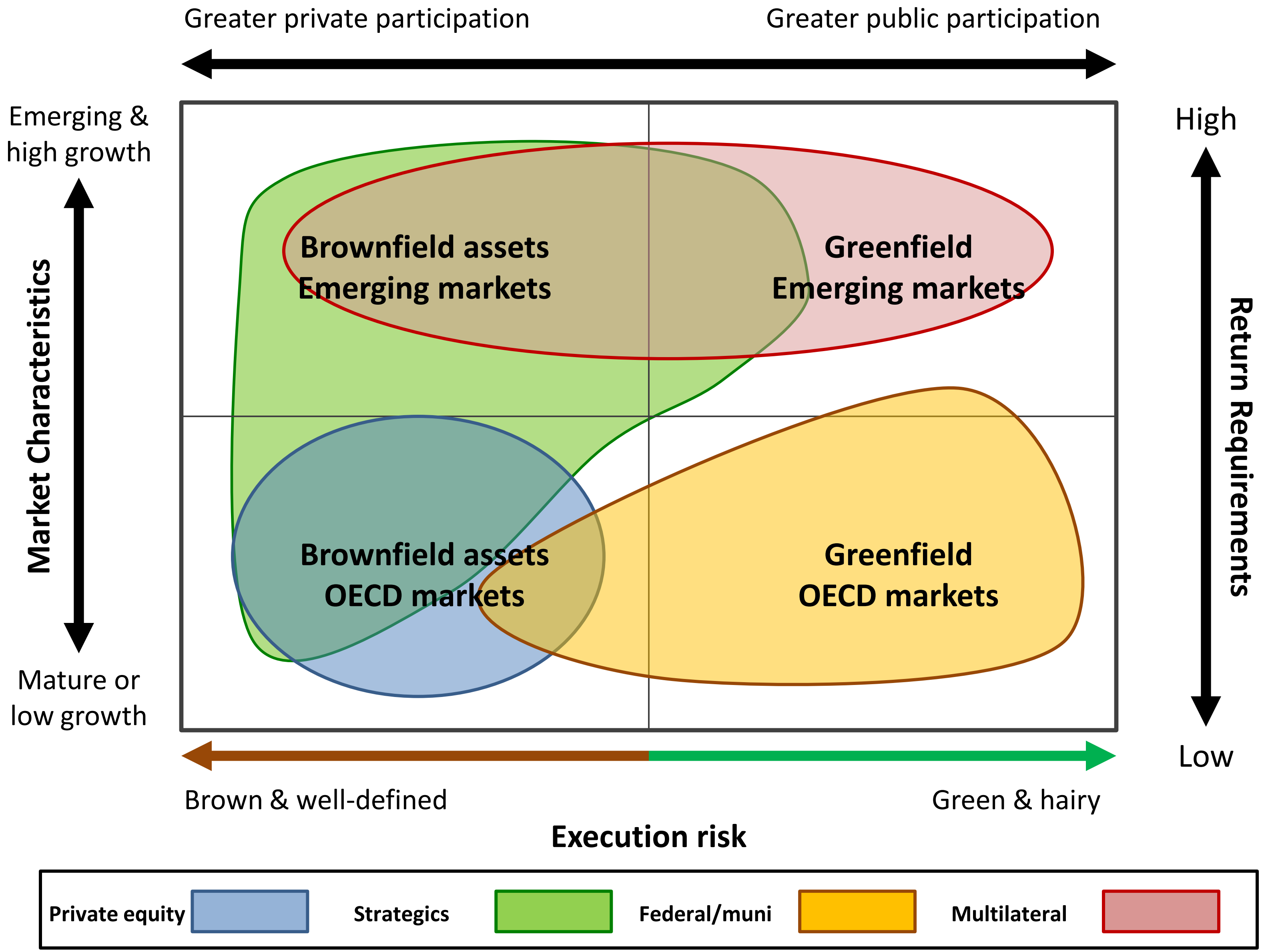
Return targets & expectations

- Moderate returns expected over mid to long-term
- Gravitating to **emerging markets** where **margins & returns are higher**
- US market is highly competitive, low barriers to entry, lower margin, **lower return**

Strategics are familiar with sector risks; **better able to evaluate & manage greenfield risks**

Overlap of capital and roles

Private and public capital overlap, but each has its own preferences



Key takeaways

- **Know your project**
  - Project profile (market demand, cost, governance) will drive funding and financing requirements and they types of equity availability
  - Ambiguity on any of these elements will shrink the field of interested players
- **Private equity**
  - Still largely locked into “low risk” OECD markets
  - PE **willingness to tackle complex projects** and risks is usually **limited**
- **Strategic operators**
  - Investing where returns are higher (often in emerging markets), but ability to pay varies widely
  - Better able to evaluate sector and project risk
- **Public stakeholders**
  - Better definition of roles, responsibilities, market demand, and support for project help private capital evaluate risk