American Association of Port Authorities

Alliance of the Ports of Canada, the Caribbean, Latin America and the United States

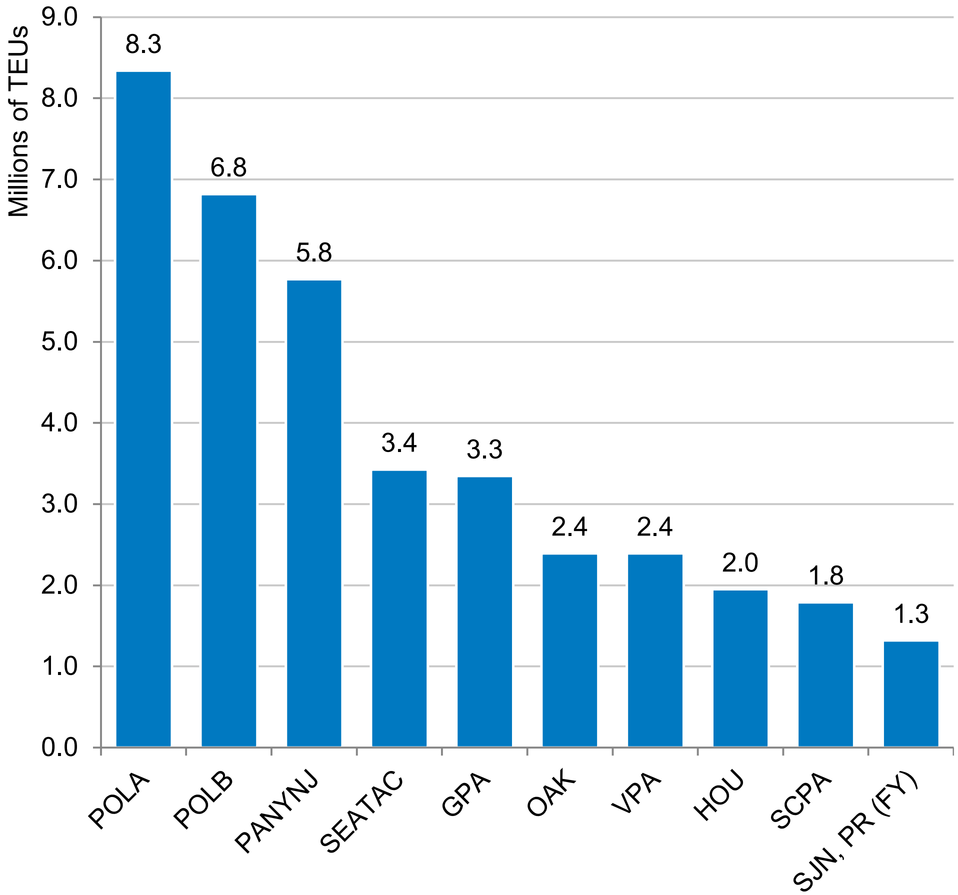
Recruitment Techniques for Sourcing Public-Private Partnerships

December 8, 2015

BMO Capital Markets®

Operating Models of U.S. Container Terminals

TOP 10 U.S. CONTAINER PORTS BY TEUS (2014)



- Approximately 25% of the top 10 container ports in the U.S. are operated by port authorities
- Approximately 75% U.S. port authorities follow a landlord model
  - Terminal leases primarily held by 3 types of lessees:
    - ~59% held by carriers or carrier-affiliated operators
    - ~33% held by institutional financial investors
    - ~8% held by family/private operators
  - Percentage held is determined by 2013 TEU volume by equity, although breakdown by number of terminals held by each party results in nearly identical numbers
- Similar data on bulk terminals is difficult to obtain, although generally, private and financial investors have a much larger presence in the space

The vast majority of North American container port terminals are leaseholds on publicly awarded land

Source: Port Authority disclosures, AAPA, Drewry Container Terminal Operators (2014), BMO Capital Markets

Carriers Are Under Significant Financial Pressure

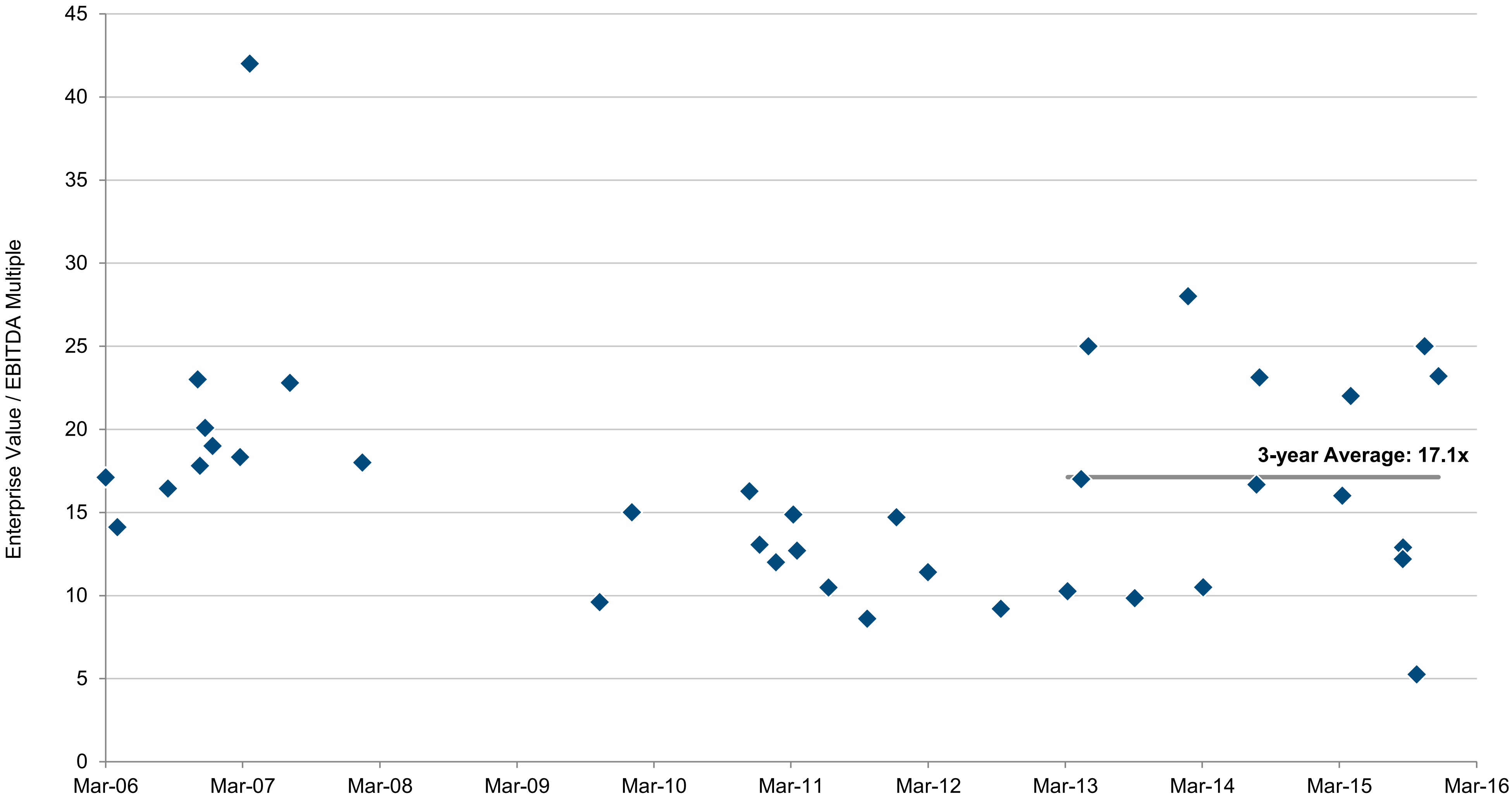
- The financial stress has seen the rise of alliances in addition to mergers between liners:
  - NOL/APL in preliminary talks with CMA CGM and Maersk (Nov-14)
  - CSCL and Cosco in early stages of merger discussions (Aug-14)
  - Hapag-Lloyd and CSAV completed merger (Dec-14)
  - Star Bulk Carriers merged with Oceanbulk Shipping (Jun-14)

- Many are levering equity through sale of minority stakes, retaining controlling interest while bringing on strong financial partners, recent examples include:
  - NYK sold 49% stake in NYK Ports to Macquarie Infrastructure Partners III (Dec-14)
  - APMT looked to divest 49% of PANYNJ terminal to Brookfield (Nov-14)
  - Edgestone Capital Partners and National Bank acquired 14% stake in Logistec (Jun-14)
  - K-Line sold 30% stake in two west coast terminal leases to Ports America (Jul-14)
  - Global Infrastructure Partners acquired 35% stake in global TIL terminal portfolio (Apr-13)

Carriers have limited capital market access with little cash available for terminal improvements given the vessel order book and economic pressures

Changes in Marine Terminal Valuations

MARINE TERMINAL TRANSACTION VALUATIONS – HISTORICAL EV/EBITDA MULTIPLES



Publicly available EV/EBITDA transaction comparables average ~17x over the last 3 years

Source: Publicly available data, BMO Capital Markets

Traditional Role of Port Authorities

- Core business of landlord port authorities
  - Improvement of infrastructure
  - Land creation/stabilization
  - Dredging
  - Landside access
  - Master planning and management of the port area
  - Outreach to public stakeholders
  - Worker safety
  - Environmental issues

- Despite ports' favorable cost of capital for capex, available funding is stretched thin with improvements for many terminals
  - MAGs previously provided a steady cash flow, but are now rare in leases
  - Lift charges are discounted as volumes increase – successfully driving volume, but hurting cash flow
  - Port Authorities look for tax increments and grants to remain viable

- Implications on Return of Capital
  - Operating ports straining to achieve 10% return
  - Private operators look for 10-20% return
  - Some landlord ports are experiencing negative returns

Port Authorities have traditionally resisted change from the landlord model

Realizing the Value of the Enterprise

- Broad universe of financial investors interested in marine terminal assets, from infrastructure funds to public pension funds
  - Some investors require controlling interest (typically those with terminal operating capabilities)
  - Minority investors are willing to invest at risk and take market risk
  - All focus on their strategic plan – existing assets, opinion on potential changes in shipping

- Port Authorities should work to re-establish active participation in the operating enterprise of gateways
  - Proactive approach to building and maintaining the gateway
  - Growth should be collaborative within the gateway instead of competitive
  - Buy back or allow leases to expire for underperforming terminals
    - Restructure into well-capitalized enterprises
    - Change land configurations to enhance the value of the gateway
  - Determine best process to realize the value of the terminal lease
  - Financial investors will show great interest in thoughtful restructuring of terminals
  - Consider terminal leases where the Port Authority retains a minority stakeholder to share in the gains of the terminal

Private operators/funds understand the value of their marine terminal enterprises – Ports need to do the same

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