Port Infrastructure Development

Opportunities in these Challenging Times

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Outline

- Public-Private Partnerships
- Transactions Advisory
- Case Study: Port Authority
- Infrastructure as an Asset Class
- Opportunities and Challenges

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Public-Private Partnerships

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A Definition of PPP's

- Broadly speaking:
  - A contractual framework, or structure, where the public and private sector come together to deliver a project/service that is traditionally provided by the public sector, by means of risk transference
  - Various structures exist; however, the key principle is that better value can be achieved through leverage of private sector competencies and the allocation of risks to those parties best-suited to manage them

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A Definition of PPP's

- Several models can be considered, including:
  - Service Agreements / Outsourcing
  - Joint Ventures
  - Concessions / Project Delivery
    - Design – Build (DB)
    - Design – Build – Operate (DBO) Structures
    - Design – Build – Finance (DBF) Structures
    - Build – Operate (BO) Structures
  - Hybrid Structures
  - Asset Securitizations / Sales

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A Definition of PPP's

- "Infrastructure" is broadly considered to include:
  - Transportation
    - Maritime – terminals, ports, equipment
    - Surface – tolled and non-tolled roads, bridges, tunnels
    - Aviation – terminals, airports, ATC
    - Rail – light rail, metros, transit
  - Utilities
    - Power, telecommunications, water, wastewater
  - Social
    - Healthcare – hospitals, clinics, laboratories
    - Governmental – buildings, courts, prisons
    - Other – museums, stadiums, concert halls

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Principles of PPP's

- PPP's should ideally achieve the following objectives:
  - Maintain or improve service levels
  - Leverage private sector skills in project delivery through improved skills, technologies and innovation
  - Access to capital and cost efficiencies
  - Maintain safe and secure operations
  - Optimize risk transfer
  - Procurement utilizing life-cycle costs
  - Efficient asset management
  - "Value for money"

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Principles of PPP's

- Objectives are achieved through:
  - Equity
  - Risk Transfer
  - Competition

The foregoing equates to private sector commitment and discipline.

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Principles of PPP's

- Differing circumstances and objectives lead to different structures
- No "silver bullet" or "one size fits all" solution
- Markets differ
  - Regulatory / institutional frameworks
  - Available funding options through capital markets
  - Local requirements / considerations
  - Public perceptions

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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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Participants' Requirements

- Public
  - Regulatory / institutional framework in place
  - Stakeholder buy-in (political / institutional)
  - Accelerated project delivery (finance / innovation)
  - Risk transference (cost / schedule)
  - Cost efficiencies (best practices / technology)
  - Competition (price)
  - Qualified providers (experience)
  - Internal resources (procurement / administration)
  - Accountability (monitoring / management)

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Participants' Requirements

- Private
  - Regulatory / institutional framework in place
  - Essential to public ("demonstrated" need)
  - Demonstrable feasibility (market / technical / environmental / financial / risk allocation)
  - Risk management (allocation / rewards)
  - Transparency (procurement)
  - Due diligence (volume / costs / revenues / risks)
  - Public sector "buy-in" (permitting / acquisition)
  - "True" partnership (contractual framework)
  - Innovation (costs / risks / revenues)

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Risks and "Value for Money"

RISK	PUBLIC	PRIVATE
Legislative (existing and future)	Major responsibility	Sharing within defined parameters
Acquisition and Environmental	Major responsibility	Sharing within defined parameters, with public sector assistance
Permitting and Planning	Major responsibility	Sharing within defined parameters
Design and Construction		Major responsibility
Operation and Maintenance	Sharing within defined parameters	Major responsibility
Financing		Major responsibility
Termination		Major responsibility, unless demonstrably caused by public
Insurance	Sharing based on availability of commercial rates	Major responsibility
Force Majeure	Sharing based on event and availability of insurance	Sharing based on event and availability of insurance

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Risks and "Value for Money"

- Risks
  - Identify, allocate and mitigate
- "Value for money"
  A. Present value of risk transferred
  B. Present value of public sector procurement costs
  C. Present value of retained risks
  D. Present value of concession payments
  E. Present value of retained risks

Public: A, B, C

Private: D, E

- "Value for money" when A + B + C > D + E

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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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Transactions Advisory

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Transactions Advisory

- Our goal in serving our clients
  - To identify, analyze and enhance enterprise value drivers at all stages of public-private partnership transactions, thereby delivering upon our commitment to provide excellence to the clients that we serve in this arena.

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Transactions Advisory

- Our expertise
  - We have an unparalleled track record of advising clients, including public authorities, vendors, sponsors, concessionaires and lenders.
  - We deliver our services worldwide and cover every aspect of technical advice, as well as various aspects of commercial advice, in every market sector that we operate in.
  - We are equally adept at advising public and private clients, with a focus on delivering solutions that result in a “win-win” scenario for all parties involved.

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Transactions Advisory

- Our differentiators
  - We are committed to realizing projects and maximizing enterprise value
  - We combine deep sector knowledge (technical) with business process expertise to enhance operations
  - We focus on economic, commercial and financial impacts
  - We possess a cadre of professionals globally, with core competencies in this market

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Transactions Advisory

- Applicable service lines offered include:
  - Asset Management
  - Contracts & Procurement
  - Economics, Finance & Policy
  - Performance Improvement

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Transactions Advisory

- Project feasibility assessment, evaluation and modeling
- Financial and technical due diligence and value appraisals
- Best practice operational and business process development
- Infrastructure development, capacity and systems studies
- Project, design and value management
- Tailored expert appraisals

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Transactions Advisory

- Establishment and operation of transportation infrastructure and utilities concessions
- Contractual and risk transfer solutions
- Partnering and stakeholder facilitation
- Audit & operational improvement
- Risk analysis, mitigation and transference strategies

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Case Study: Port Authority

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Case Study: Port Authority

- Should PA continue to provide landside operations?
- Should PA continue to provide waterside operations?
- Should Terminal X remain a public-user facility?
- Should Terminal X remain a single terminal?
- Should all or any part of Terminal X be dedicated to a single liner?
- Should PA consider leasing the facility to a non-liner operator?
- Should PA continue to be the source of capital development funding?

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Case Study: Port Authority

- Should Terminal X continue to own and rent out key container handling equipment?
- Should Terminal X offer dedicated berths or quay cranes to any liner on an premium basis?
- What investments for new capital equipment or facilities, or resolution of deferred maintenance, are required?
- Who pays for facility maintenance, or repair of routine wear and tear?
- Who defines, selects, and manages the Terminal Operating System?

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Case Study: Port Authority

- What incentives should be defined for increasing vessel and crane productivity?
- What incentives should be defined for improving truck service times?
- What incentives should be defined for increasing utilization of fixed land and infrastructure resources?
- To what degree should PA define how the terminal is to be operated?
- To what degree should PA be involved in defining labor work rules?

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Case Study: Port Authority

- To what degree should PA be responsible for marketing the facility's capacity?
- Who contracts with shipping lines to use the facilities

Basically, all the foregoing can be translated into risk factors and an appropriate framework for the allocation of these risks needs to be developed.

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Case Study: Port Authority

Model Description	Role	Stevedoring Services	Gate / Yard Services	Infrastruct. Upgrades	Infrastruct. M&R	Equipment Capital	Equipment M&R	Terminal Operating System	Gate Instruments	Terminal Instruments
Port Authority	Define	Liner	Operator	PA	PA	Operator	Operator	Operator	Operator	Operator
	Finance			PA	PA	Operator	Operator	Operator	Operator	Operator
	Operate	Stevedore	Operator	PA	PA	Operator	Operator	Operator	Operator	Operator
Dedicated Liner A	Define	Liner	Liner	PA	PA	PA	PA	Liner	Liner	Liner
	Finance			PA	Liner	PA	PA	Liner	Liner	Liner
	Operate	Liner	Liner	PA	Liner	PA	PA	Liner	Liner	Liner
Dedicated Liner B	Define	Liner	Liner	PA	PA	Liner	Liner	Liner	Liner	Liner
	Finance			PA	Liner	Liner	Liner	Liner	Liner	Liner
	Operate	Liner	Liner	PA	Liner	Liner	Liner	Liner	Liner	Liner
Terminal Operator A	Define	Liner	Operator	PA	PA	PA	PA	Operator	Operator	Operator
	Finance			PA	PA	PA	PA	Operator	Operator	Operator
	Operate	Operator	Operator	PA	PA	PA	PA	Operator	Operator	Operator
Terminal Operator B	Define	Liner	Operator	PA	PA	Operator	Operator	Operator	Operator	Operator
	Finance			PA	PA	PA	PA	Operator	Operator	Operator
	Operate	Operator	Operator	PA	PA	Operator	Operator	Operator	Operator	Operator
Services Port	Define	PA	PA	PA	PA	PA	PA	PA	PA	PA
	Finance			PA	PA	PA	PA	PA	PA	PA
	Operate	PA	PA	PA	PA	PA	PA	PA	PA	PA
Services Alt A	Define	Liner	PA	PA	PA	PA	PA	PA	PA	PA
	Finance			PA	PA	PA	PA	PA	PA	PA
	Operate	Stevedore	PA	PA	PA	PA	PA	PA	PA	PA
Private Port	Define	Operator	Operator	Operator	Operator	Operator	Operator	Operator	Operator	Operator
	Finance			Operator	Operator	Operator	Operator	Operator	Operator	Operator
	Operate	Operator	Operator	Operator	Operator	Operator	Operator	Operator	Operator	Operator

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Infrastructure as an Asset Class

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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

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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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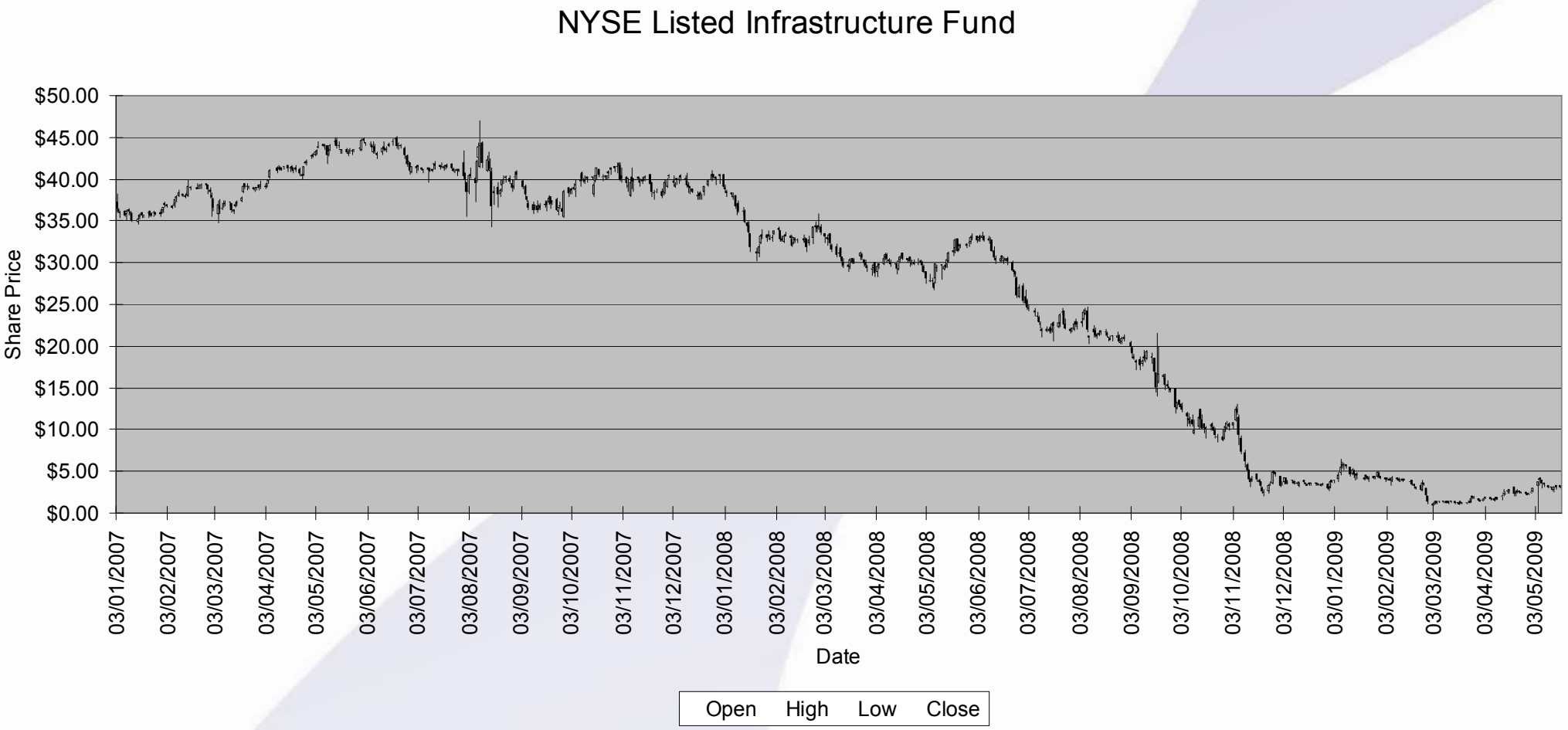
Infrastructure as an Asset Class



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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
- 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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Myths

- Private sector participation is detrimental to the public as a result of private sector's profit motive
- Private capital should only be brought in when public entities are strapped for cash
- Private sector participation will deliver cash windfalls to either the private sector or the public sector, or both

Effective communication is key!

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THANK YOU!

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