The Changing Environment for Capital Investment

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Outline

• Recent Transactions
• Public-Private Partnerships
• Infrastructure as an Asset Class
• Opportunities and Challenges
Recent Transactions
Port of Oakland

• Long-term (50-year) concession
• Ports America / Highstar
• Phase 1
  – $150 million investment
  – 160 acres
  – 4,400 feet of quay
• Total investment of $500 million
Port of Baltimore

- Long-term (minimum 30-year) concession
- Two bidders
  - Ports America / Highstar
  - Ceres Terminals
- Program
  - Existing terminal operations
  - 200 gross acres
  - 3,127 feet of quay (45-foot draft)
  - 700-foot barge berth (32-foot draft)
  - Construction of Berth IV
Virginia Port Authority

• Long-term (minimum 30-year) concession
• Three unsolicited bids
  – Centerpoint Properties
  – SSA / Goldman Sachs
  – The Carlyle Group
• Program
  – All of VIT, plus rights to Craney Island
• “Apple, pear and orange”
• Further steps in process are unknown at present
Public-Private Partnerships
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
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
“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.
Infrastructure as an Asset Class
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
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)
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
Opportunities and Challenges
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• Public sector imperatives
  – Clear definition of objectives (yours)
  – Clear understanding of objectives (theirs)

• Understanding of risks
  – Magnitude
  – Impact
  – Corrective measures

• Internal capacity
Opportunities and Challenges

- The “levered” model has been proven to not work effectively
- Gearing ratios ↓
- Debt spreads ↑

Credit is still very tight!

- 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
THANK YOU!

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