Public Sellers & Private Buyers: Same Planet, Different Worlds

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The Problem

Sellers have plenty of projects that need investment ("P3") but infrastructure funds are not lining up to bid for them. Why?

• Neither party really knows the other very well
• Mixed / inconsistent signals
• Real & perceived project risks
• Traditional ‘marriage’ mechanisms (i.e., leases) are geared for strategic players, not financial sponsors
• No central clearinghouse or social networking site (e.g., Facebook, Craig’s List, LinkedIn, eHarmony, etc.) exists to locate or match buyers and compare investment criteria.

• If there was we might understand each other a little better.
## Public Sellers’ Preferences

**Tell us your investment preferences:**

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Objectives?</td>
<td>Job creation (votes), tax revenue…and more revenue</td>
</tr>
<tr>
<td>Planning Horizons?</td>
<td>Long-term. Usually 15-30 years</td>
</tr>
<tr>
<td>Hold Period?</td>
<td>Usually forever</td>
</tr>
<tr>
<td>Rated Debt?</td>
<td>Sometimes “AAA”, but no less than “BBB-”</td>
</tr>
<tr>
<td>Types of Assets for Sale?</td>
<td>Lots of big, expensive greenfield opportunities</td>
</tr>
<tr>
<td>All Permits in Place?</td>
<td>Depends - might get them before Panama Canal is widened</td>
</tr>
<tr>
<td>3rd Party Operator Ok?</td>
<td>Depends on the state. Some PA’s like operational control</td>
</tr>
<tr>
<td>Steamship Partner Ok?</td>
<td>Traditionally, yes. They bring boxes &amp; big ships</td>
</tr>
<tr>
<td>Financial Sponsors Ok?</td>
<td>Sure, we like their money but we don’t know them very well</td>
</tr>
<tr>
<td>Luck in Finding Buyers?</td>
<td>Not really...everyone’s just window shopping right now</td>
</tr>
</tbody>
</table>
Add Assets to Your “Friend” List

We think you might like some of these...

Add Assets to Your Portfolio

Asset Attributes

- Midwest Market Access
- Land for DCs
- Automation Potential
- Close to Open Sea

Southport, Philadelphia, PA

Galveston, TX

Bayonne, NJ

NCIT, NC

Navy Base, Charleston, SC

Jasper County, SC

Melford, NS, Canada

Sydport, NS, Canada

Click for More Projects

Each project has the potential to add significant capacity to a market currently characterized by oversupply
### Tell us your investment preferences:

<table>
<thead>
<tr>
<th>Preference</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Objectives?</strong></td>
<td>ROE – aim for mid-teens, happy to get more</td>
</tr>
<tr>
<td><strong>Planning Horizons?</strong></td>
<td>Usually 7-10 years</td>
</tr>
<tr>
<td><strong>Hold Period?</strong></td>
<td>7-10 years</td>
</tr>
<tr>
<td><strong>Rated Debt?</strong></td>
<td>None. Used project finance previously; none available now</td>
</tr>
<tr>
<td><strong>Areas of Interest?</strong></td>
<td>Big, inexpensive brownfield platforms complete w/operators</td>
</tr>
<tr>
<td><strong>Risk Appetite of LPs:</strong></td>
<td>Low</td>
</tr>
<tr>
<td><strong>Permit Risk Ok?</strong></td>
<td>Low / no tolerance</td>
</tr>
<tr>
<td><strong>Construction Risk Ok?</strong></td>
<td>Low / no tolerance</td>
</tr>
<tr>
<td><strong>Governance Preference:</strong></td>
<td>Want operational control / board level majority control</td>
</tr>
<tr>
<td><strong>Size of Equity Checks?</strong></td>
<td>Depends on size of the Fund. No financing, no equity check</td>
</tr>
</tbody>
</table>
Pre & Post-2007 Infra Fund Characteristics

The next generation of infrastructure funds may (have to) be different

**2006/2007-vintage funds**

- Raised as much as $6-7bn, wrote sizable equity checks
- Check size dependent upon agreements with LPs - usually some percentage of committed capital
- Access to significant leverage via project financing
- Result = higher valuations

**Post-2007 funds**

- Few have raised more than $1bn, some as little as $150M
- Limited access to leverage
- Result = lower valuations & fewer transactions
- Ability to pay ≠ Willingness to pay

**Likes**

Inflation – proof assets
Recession – proof assets
High equity returns
Day-1 cash flowing assets

**Dislikes**

Demand Risk
Leverage
Development Risk
Management Risk
Excess Capacity
Post-2007 landscape for infra funds is quite different

• Equity available, but more fragmented and in smaller denominations
• Limited leverage available, especially for ports
• Suitable operator partner candidates scarce
• Some LPs now looking to make investments directly, circumvent fund fees
• LPs negotiating lower fees
• Investment committees more conservative

Infra Fund Challenges

Fewer Brownfield Opptys
Seller Price Expectations
Investment Mandates
Little / No Leverage
Operating Partners are Few
Want Operational Control
Lower Fees from LPs
Turnover Among Staff
What’s the Disconnect?

Equity is available, projects abundant, but few marriages

1. No clearinghouse exists for finding the “right” PE fund
2. Lack of consistent market signals
3. Greenfields pose too much risk as currently offered
4. Traditional lease/development structures need tweaking
Understanding What Your Assets Can Attract

PE is by nature and necessity ‘private’

1. No clearinghouse exists for finding the ‘right’ fund
   - PE funds are secretive out of regulatory (SEC) necessity
   - PE funds by nature are competitive & do not advertise their investment criteria - like to keep competitors guessing
   - The composition of each fund varies according to mandate, LP priorities and LP country of origin
   - Most unable to invest in any greenfield projects - PE traditionally aims to add value to existing operations, not start from scratch
   - Most infra fund LPs are non-US which raises FIRPTA issues (see John Cavanaugh - June 10th!)

Common Issues

PE is by nature secretive
Country of LP origin matters
Like fixing existing assets
Unable to do greenfields
Consistency will help both get on the same page

2. Mixed market signals from public sellers
   - Lack of standardization across states/regions
   - Seller’s “ask” can be vague resulting in wildly different bids for the same asset making comparison of bids difficult
   - Opaque decision-making processes and timelines
   - Construction / environmental permits not always secured at time of process
   - Projects sometimes years away from being shovel-ready
   - During bid process asset sale can be derailed by politics
   - No moratorium on new capacity projects - always more in the pipeline by competing municipalities
   - New entrants may face unlevel playing fields
3. Greenfield project risks & issues

- Permits not in place or are challenged by stakeholders
- No near-term constraints to regional capacity
- Market demand often not well delineated / proven
- Existing carriers/MTOs still repairing balance sheets
- Vintage fund assets repairing balance sheets
- Landside infrastructure constraints / shortfalls

Key Risks

- Permit Risk
- Construction Risk
- Political Risk
- Market Risk
- Over-supply of Capacity
- Revenue Risks
- Labor Risk
- Landside Access Risk
- Valuation challenges
Align Risks & Rewards

Shorter hold periods
Different from ‘Strategics’
Front end risks
Back end rewards

4. Consider non-traditional risk & incentive structures

- Understand who the buyer is and the buyer’s timeline (usually shorter than yours!)
- Willing to share risk and reward with sellers around those shorter timelines
- Some buyers may not want to hold forever
- Plain-vanilla development and financing approach won’t cut it in current environment
LatAm risks & rewards often easier to quantify

- National-level standardization of procurement procedures & objectives across asset opportunities
- Seller’s “ask” criteria usually laid out explicitly making cross-comparisons easier (apples-apples instead of apples-oranges)
- Permits and necessary construction authorizations in place at time of process - practically shovel ready
- Buyers on the hook for most costs and risks, but upside potential is substantial
- Moratorium on new capacity projects in same market not uncommon - allows winning bidder to pay for investment
- Market demand usually easily identifiable in highly concentrated urban areas
- Most bidders have been “strategics”, not “sponsors”
Conclusion

Some high level steps that may help facilitate more P3 investment

**Next Steps**

- Consistency
- Establish criteria
- Define Risks / Rewards
- Non-traditional leases

**Finding the “right” fund partner depends on what’s offered**
- Capital formation difficult for widely disparate offerings and political circumstances

**Funds need clear market signals from states & municipalities**
- Difficult to set up large infra funds in advance of knowing what criteria municipalities will establish
- More consistent signals & criteria will draw capital

**Greenfield risks require more upfront spade work by sellers**
- Eliminate ambiguity, help make risks more quantifiable

**Tweak plain-vanilla lease & development structures**
- Several options exist to structure some (but not all) greenfield project agreements and make more palatable
Questions & Answers