Attracting Private Sector Investments in Public Ports

American Association of Port Authorities

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Investments Are Increasing in the Port Sector

- The last five years has marked historic private sector investment in Ports

- Many successful Public Private Partnerships have been started

- Private Sector interest continues to increase in Port infrastructure
North American Container Traffic Update (TEUs)

- Less reliance on West Coast land-bridge, indicated by rise of Suez strings to the East Coast and the comparative resiliency of Gulf Coast
  - LA / LB remains preferred routing for Midwest

- Ports with greatest bounce-back are those that suffered the most during the recession
  - 5.8% average 2011 YTD growth rate from 2010 YTD
  - Outliers included the Port of New York / New Jersey with a high 9.7% growth
  - The Port of Seattle’s traffic grew 1.6% in 2011 after a 34.6% increase in CY 2010

### 2011 YTD vs. 2010 YTD (mm TEUs) – January to May

*Figures shown represent reported volumes for January 2011 – April 2011.
Source: American Association of Port Authorities and publicly-available ports statistics.*
The Port Sector Has Always Been the Most Private of Public Enterprises

North American Landlord Ports
- Prince Rupert
- Vancouver
- Seattle
- Portland
- Oakland
- Hueneme
- Los Angeles
- Long Beach
- San Diego
- Galveston
- Mobile
- Tampa
- Miami
- Everglades

North American Operating Ports
- Jacksonville
- Baltimore
- New York
- Halifax
- Montreal
- Tacoma
- Houston
- Charleston
- Savannah
- Virginia (partial)

The value of the location is in the business enterprise
- Who owns the business?
- Who owns the revenues?
- Operating ports are valued much higher than landlord ports
Credit vs. Revenue
Going Concern Credit vs. Project Finance

- If a Port has the revenue (historic), it has credit
- Port can borrow at very low rates - tax exempt in the U.S.
- The downturn has affected landlord credit everywhere
- Project financing is all about reducing uncertainties
  - Firm contracts
  - Carrier commitments
Private Sector Participation

**Interest in Having the Private Sector Participate in the Project or Terminal**

- Authority may not want to take the risk with their existing revenues
- Authority may not have the existing revenue, nor the credit
- The revenues may be too uncertain, and therefore the risk may be too great to get additional credit

**Private Sector Resources**

- The private sector has credit

- In order for you to get the private sector to use their credit and equity on your project, they must believe that there will be revenue and that the revenue case is so compelling that there will be sufficient revenues to cover their debt service (which may or may not be higher than yours) and produce a decent return on their equity

**There is Demand in the Private Sector for Exposure in the Port Sector**

- Infrastructure funds (pension money)
- Operators (platforms that want to develop and ultimately package for funds)
- Carriers
## Interested Infrastructure Funds, Operators, and Carriers

<table>
<thead>
<tr>
<th>Infrastructure Funds</th>
<th>Operators</th>
<th>Carriers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Highstar/Ports America, GSIP/Carrix, Carlyle, Brookfield, Ontario Teachers/Global, Fortress</td>
<td>• Highstar/Ports America, GSIP/Carrix, Ontario Teachers/Global, Maher Terminals, DPW</td>
<td>• Low appetite for contractual commitments</td>
</tr>
<tr>
<td>• Source of funds = teachers’ pension $</td>
<td>• Family-owned platforms acquired by infrastructure funds</td>
<td>• Maersk made an attempt</td>
</tr>
<tr>
<td>• Minimum of $100mm, preferred $300mm+</td>
<td>• Minimum of $100mm, preferred $300mm+</td>
<td></td>
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<tr>
<td>• Interest is high</td>
<td>• Interest is high</td>
<td></td>
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<tr>
<td>• Prefers negotiated transactions; term of investment varies</td>
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<td></td>
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Brief History of Private Interest in Ports

- 2006 - private to private transactions
- Family operators – liquidity events
- Single terminal concessions by larger ports (as leases come up)

Review of Notable Transactions: Enterprise Value to EBITDA Multiples

<table>
<thead>
<tr>
<th>TARGET</th>
<th>ACQUIRER</th>
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<tbody>
<tr>
<td>40% in 6 Hanjin Term.</td>
<td>Macquarie</td>
</tr>
<tr>
<td>P&amp;O No. America Halterm</td>
<td>Highstar</td>
</tr>
<tr>
<td>4 OOIL Term.</td>
<td>Macquarie</td>
</tr>
<tr>
<td>80% Montreal Gateway</td>
<td>OTPP</td>
</tr>
<tr>
<td>Maher</td>
<td>Morgan Stanley</td>
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<tr>
<td>MTC</td>
<td>RREEF</td>
</tr>
<tr>
<td>Amports</td>
<td>Highstar</td>
</tr>
<tr>
<td>49% Carrix</td>
<td>Highstar</td>
</tr>
<tr>
<td>Oakland B20-24</td>
<td>Goldman IP</td>
</tr>
<tr>
<td>Baltimore’s Seagirt</td>
<td>Highstar/PA</td>
</tr>
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<td></td>
<td>Highstar/PA</td>
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EV/EBITDA (x)
What Does This Private Sector Interest Mean to Me and to My Port

- Revaluation of the Port space
- Future public subsidies
- Change in my standard procurement and/or operating practices?
Greenfield Site/Project vs. Existing Business

- Risks of Greenfield are large
- Existing businesses are stable and attractive

Port of Wilmington, Delaware

Port of Galveston, Texas
## What are the Core Competencies of the North American Port Authorities and the Private Sector Owners/Operators?

<table>
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<tbody>
<tr>
<td>• Long-range planning</td>
<td>• Operating terminals</td>
</tr>
<tr>
<td>• Stakeholder outreach</td>
<td>• Marketing gateways</td>
</tr>
<tr>
<td>• Consensus building</td>
<td>• Dealing with unions</td>
</tr>
<tr>
<td>• Property assembly</td>
<td>• Managing risk</td>
</tr>
<tr>
<td>• Eminent domain</td>
<td>• Building multiple port platforms and using scale and other synergies to grow business</td>
</tr>
<tr>
<td>• Utility relocations</td>
<td></td>
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<tr>
<td>• Grant administration</td>
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</table>
Changes in Port Practices

- Competitive procurement (stop enriching the private sector with negotiated transactions)
- Include the infrastructure funds
- Longer concessions

Port of Oakland, California

Seagirt – Baltimore, MD
What Can I Do to Attract Private Sector Capital and Participation in My Projects

- Look at my businesses, lease portfolios, and expansion space
- Think about turning over portions of my business to the private sector
- What would we do with the $ if we got some?
  - Develop new businesses
  - Take additional business risk for the region (jobs, economic development)
- Packaging new projects with existing businesses