Global Finance Sources for Hemispheric Port Development
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BMO Capital Markets
Ports Have 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
- Jacksonville
- Baltimore
- New York
- Halifax
- Montreal
- Tacoma

### North American Operating Ports
- 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

- 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

Going Concern Credit vs. Project Finance
**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
  - The revenue case must be compelling and should cover debt service plus a decent return on their equity

- There is Private Sector demand for Port Exposure
  - Infrastructure funds
  - Operators
  - Carriers

### Interested Infrastructure Funds, Operators, and Carriers

<table>
<thead>
<tr>
<th>Potential Partners</th>
<th>Infrastructure Funds</th>
<th>Operators</th>
<th>Carriers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Highstar/ Ports America, GSIP/ Carrix, Carlyle, Brookfield, Ontario Teachers/ GCT, Fortress</td>
<td>Highstar/ Ports America, GSIP/ Carrix, Ontario Teachers/ GCT, Maher Terminals, DPW</td>
<td></td>
</tr>
<tr>
<td>Source of assets</td>
<td>Pension funds</td>
<td>Family-owned platforms acquired by infrastructure funds</td>
<td></td>
</tr>
<tr>
<td>Preferred Investment Level</td>
<td>Minimum of $100mm, preferred $300mm+</td>
<td>Minimum of $100mm, preferred $300mm+</td>
<td></td>
</tr>
<tr>
<td>Interest in Sector</td>
<td>Interest is high</td>
<td>Interest is high</td>
<td>Low appetite for contractual commitments Maersk made an attempt</td>
</tr>
<tr>
<td>Preferences</td>
<td>Prefers negotiated transactions; term of investment varies</td>
<td>Prefers negotiated transactions; term of investment varies</td>
<td></td>
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</tbody>
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**Private Sector Participation Diversifies Risk Away From Port**
Greenfield vs. Existing Business

- Greenfield Container Terminals bear many high risks
  - Without contracted volume, market risk is too high
  - With contracted volume, credit risk is carrier-driven
  - Funds have not stepped up to Greenfield opportunities

- Expanding existing facilities in proven gateways does work
  - Oakland, Baltimore proved well the premise
    - Lower available (going concern) credit in most ports
    - Expansion only creates increased competition for other terminal operators in the gateway
  - For operating Ports any partial concession cannibalizes the business
    - VPA
Government Subsidies are Decreasing

Federal US Subsidies have Changed to Loans

- Other than RRIF for rail elements, TIFIA has not been available to the Port Sector
- States and counties are putting pressure on ports to take away existing tax subsidies
  - VPA – Gas Tax
  - Seattle – Prop Tax
  - Houston, probably no more bond elections

Canadian Government subsidies center around Gateway developments and Plan Nord

- Oil, gas, and minerals rule the day
- Plan Nord - $500 mm

Projects are less likely to receive Gov’t support going forward

Source: Quebec Mining Association

IOC Mining Company terminal at the Port in Sept-Îles, Quebec
There is Higher Risk in Container Terminals Recently

- Carriers are hurting
  - NOL stated last week that 5% of the world’s fleet has been “parked”
  - Carriers will move containers for a price
    - Grand Alliance to Tacoma
    - COSCO to Prince Rupert before that
    - T-18’s credit premise was that containers will continue to move through the Seattle gateway and that a certain amount of terminal capacity was always necessary in Seattle
      - No longer the premise
      - When Seattle volumes are down SSA / GS also competing against other Seattle terminals

- Funds are very concerned about risks in container ports
  - Volumes down 40% in some gateways during the recession
  - Carriers and BCO’s have assessed alternative gateways
    - Costs and distance – LA / LB issues
    - Prince Rupert Worked
    - Rail Consolidation worked – RRs can guarantee delivery times

Historical Port Volume (million TEUs)
Many Government Sponsors are looking at their Port Gateway Assets

- North American Model is individual Silos
  - All compete on price
  - All compete for Gov’t subsidies
  - All eventually gets passed on to Terminal Operators and Carriers as lower operating cost

- Ports Going Concern Credit has narrowed considerably in recent years
  - Many ports cannot meet the capital needs of their tenants
  - Many Ports are facing deteriorating infrastructure

- Governments are reviewing alternatives
  - Galveston
  - Chicago – scarce waterfront land
  - Delaware
    - Ability to “harvest” the asset’s value
    - Shift of 100% of Cap Ex and Facility condition risk to private sector going forward
    - Opportunity to dramatically increase investment in the gateway immediately
      - Jobs & Economic development

The Private Sector can change a Landlord Gateway Dramatically
Other Changes are Affecting North American Shipping Preferences

- Panama Canal will have some impact
  - No one can say until it happens
  - Pricing of the Canal
  - Larger Ships need to come online

- Railroad Consolidation has been very successful
  - Efficiencies and speed improvements
  - Service improvements
  - Prices have come down
  - Railroads have forced changes in shipping
    - Shipping on the Great Lakes is down
      - Seasonal
      - High Costs
    - Barge traffic down Mississippi is still competitive
    - Barge quantities are no longer necessary

Source: Radicalcartography, Bill Rankin, 2005

The Industry is constantly changing as competitive pressures within modes and between modes changes – Which does and will affect credit available to various physical assets
Players are Changing

- Platforms are strapped and are still unburying from high value days
  - PortsAmerica
  - SSA/GS
  - Maher/Deutsche Bank

- Strategics are few and not interested in containers

- Many new funds still searching for operating arms
  - VPA interest (VIT)

Review of Notable Transactions | EV to EBITDA Multiples

![Graph showing EV to EBITDA multiples for notable transactions between 2006 and 2010.](image-url)

- **Target**
  - 40% in 6 Hanjin Term.
  - P&O No. America
  - Halterm
  - 4 OOI L Terminals
  - 80% Montreal Gateway
  - Maher
  - Amports
  - MTC
  - 49% Carrix
  - Oakland B20-24
  - Baltimore's Seagirt

- **Acquirer**
  - Macquarie
  - Highstar
  - Macquarie
  - OTPP
  - Morgan Stanley
  - RREEF
  - Highstar
  - Highstar
  - Goldman IP
  - Highstar / PA
  - Highstar / PA

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BMO Capital Markets
Are there Global Sources for Hemispheric Port Funding?

Part I – Container Ports

- Landlord Container Ports
  - Demand is still high in certain operating platforms
  - Values/Price of the assets has changed given shift
  - Many Ports still undervalue their assets given their desire to trade market value for market share, favoring negotiated transactions with carriers

- Operating Ports are still the highest on the list
  - Face the cannibalization issue
  - VPA – Maersk

Container Terminals are still considered valuable assets by the private sector
These developments could possibly be the largest movers in the space over the next decade.
Are there Global Sources for Hemispheric Port Funding?

Part III – Bulk Ports

- Funds are focused on bulk terminals
- Strategics are focused on bulk terminals
  - Less volatility than containers
  - Rollups possible (to get size exposure to sector)

There is more demand than ever for port assets in all sectors – depending on price!
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