Joint Subcommittee
Studying Public-Private Partnerships
Related to Seaports

Port Public-Private-Partnerships

What should ports want . . .
What do your partners expect?

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R. K. Johns
& Associates, Inc.

R. K . Johns & Associates

- A management consulting firm serving the maritime transportation industry since 1987
- Core executive team with career-based experience in shipping/port management, finance, sales, marketing, operations, planning & M&A
- Hallmarks: confidential, trusted industry access & long term client commitments
- Port/terminal concession, financing & partnership analyses prepared for:
  - **Investors: Carlyle Group, Babcock & Brown**
  - **Ports: 6 ports on east, gulf & west coasts of North America**

Agenda

- A “port primer” – where we’ve been & what’s ahead
- . Why would a Port Authority be interested in a PPP?
- What’s in it for the Investor?
- Who are the potential Investors?
- What’s the scorecard on port related PPPs so far?
- O.K., we’re in a recession, now what?
- Summary: <u>IF</u> we consider a PPP, what are our objectives & strategies?

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U.S. Container Port Review

Top 10 U.S. Ports Container Volume, 1997-2007

(in 000 TEU, including loads & empties)

		1997	2007	10-Year CAGR	% chg. '07 vs '06	% chg. '08 vs '07
1	Los Angeles	2,960	8,355	10.9%	-1%	-6%
2	Long Beach	3,505	7,316	7.6%	flat	-11%
3	NY/NJ	2,457	5,299	8.0%	4%	-5%
4	Savannah	735	2,604	13.5%	21%	flat
5	Oakland	1,531	2,388	4.5%	-1%	-6%
6	**Hampton Roads**	**1,233**	**2,128**	**5.6%**	**7%**	**-2%**
7	Seattle	1,476	1,973	2.9%	-1%	-13%
8	Tacoma	1,158	1,925	5.2%	-7%	-4%
9	Houston	934	1,769	6.6%	10%	-4%
10	Charleston	1,218	1,754	3.7%	-11%	-5%

Source: AAPA, R K Johns estimates for '08

- **40 container ports in North America, with U.S. Top-10 holding 80% share**
- **Box throughput doubled since 1997**
- **North Asia = 57% of trade, up from 42% in 1997**

North America Container Port Outlook
Where will the next doubling of cargo go?

+$10 billion port investment
needed for planned "in the ground" assets
to even create terminal business value

Expansion minded: (+acres)

<u>East Coast</u>

Norfolk- APMT & Craney Is., +700
N.C.- Southport +600
Charleston- Navy base +250
Savannah – Jasper +400
Jacksonville- MOL/Hanjin +200
Melford/Sydport, CN - +200
Philadelphia - +150

<u>Gulf & West Coast</u>

Houston- Bayport +375
(Texas City & Pelican Is. ?+1,600)
Tacoma – Blair waterway +350
Vancouver – T2 +200
Prince Rupert – 2 terminals
+160 to +350

Long Beach & Los Angeles are enlarging existing facilities

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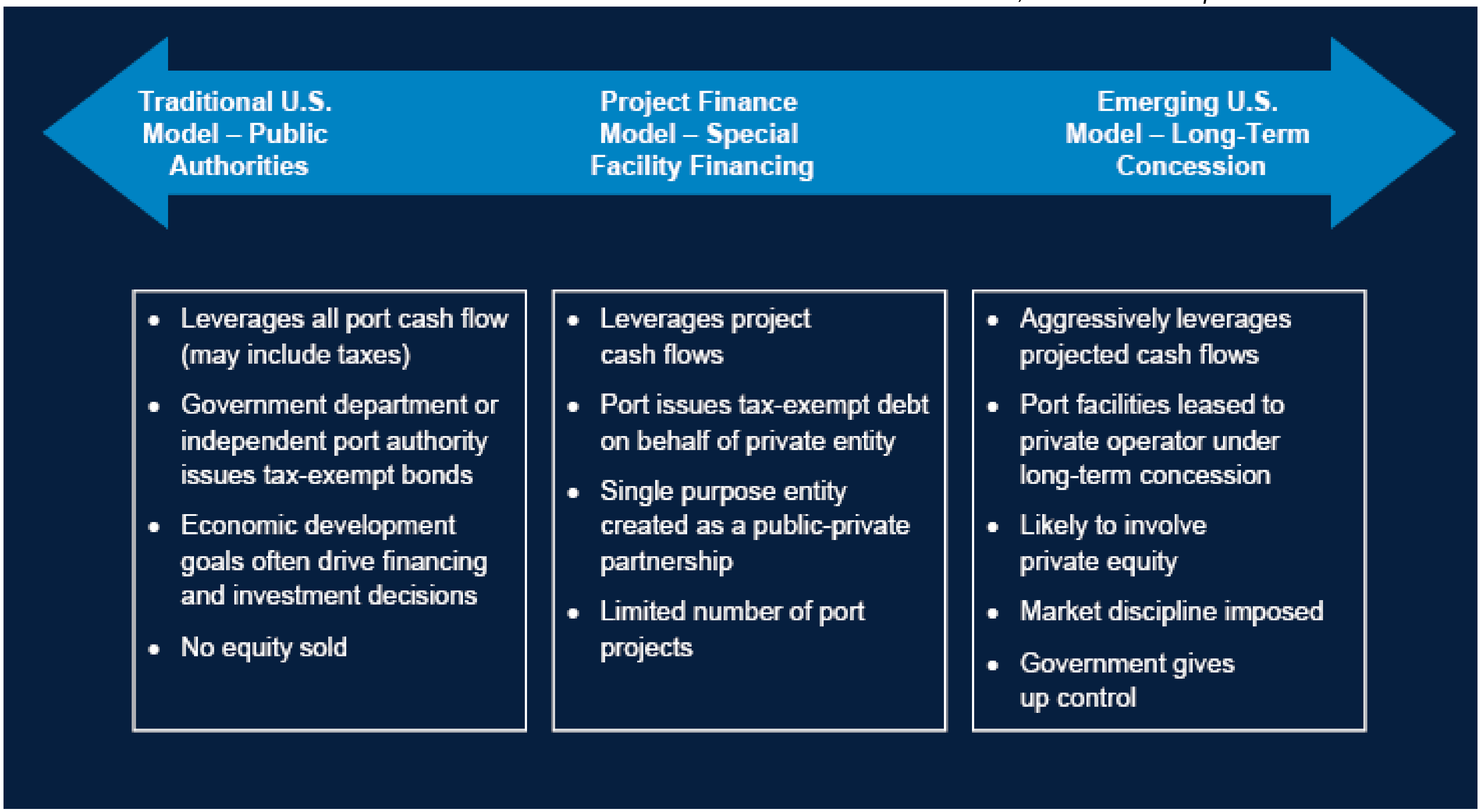
Port Finance

"Most investors emphasize that privatization is not a panacea, but rather a financing tool."

Standard & Poors, Infrastructure Report 2007



Source: Morgan Stanley slide from their AAPA presentation June 2008

If the project fits . . . PPP it?
In their own words

"As a result of rampant demand, the infrastructure sector is suffering from the dual curse of overvaluation and excessive leverage – the classis symptom of a bubble, similar to the dot-com era." *Standard & Poors, Infrastructure Report 2007*

"We were attracted to the NY port by global trade trends, the port's tight capacity, stable volume & container revenue, the large consumer market and resultant opportunities for terminal value creation." *AIG Highstar, Journal of Commerce January 2008*

"We believe we bought a premiere terminal and in what seems like a very quick year, we know this business is still sustainable, but we have also learned that it can be unpredictable." *RREEF, TOC Americas conference November 2008*

There are Proponents & Critics On both Sides of the PPP Fence

Why are some Port Authority governing bodies attracted to PPPs?

- **Asset monetization (Cash!)**
- **Ability to defease/collateralize debt**
- **Still own & control port as a landlord**
- **Potential to improve operating efficiency**
- **Develop new port facilities**
- **Fund related infrastructure projects**
- **Redeploy government spending/taxes**
- **Share/redirect risk**

(political, operational, labor, economic, etc.)

New Players … Same Port Business … Perhaps different Values & Objectives

Why are Private Investors (and Banks) attracted to Ports?

- **Long term leases, low risk assets**
- **Visible & predictable earnings**
- **Inflation linked revenue**
- **Barriers to entry & high cost for Greenfields**
- **Performance not tied to common financial instruments**
- **Ability to build a better mousetrap (scale up)**
- **Client "stickiness": durable contracts & guarantees**
- **Opportunity to create & leverage value**

Who are the Buyers?

- Strategic: carriers & global terminal operators

- Financial: (general categories)

  ➢ Aggressive investors looking to maximize the purchased asset's value through debt leverage. Owners of these investments (example: infrastructure funds, private equity) look for dividends and traditionally hold the assets for the short or medium term.

  ➢ Passive investors focus on the asset providing a stable, longer term yield for the owners (example: pension funds). Assets are chosen to spread the overall portfolio risk

Recent Port Terminal Transactions

- Early 2000s – half dozen minority stakes in Asian & European terminals by global terminal operators, NYK buys Ceres in '02 for an estimated $250 million (about $90 per TEU)

- 2004 – DP World buys CSX World Terminals for $1.14 billion, estimated at 14x EBITDA and the equivalent of $345 per TEU

- 2006/2007 – 10 deals involving North American terminals

Target	Acquirer	Estimated Price ($mn.)	EBITDA Multiple	Price per/TEU
P&O Ports (Worldwide)	DP World	$6,800	16	
Hanjin (40%)	Macquarie	$350		
OOIL Terminals	Ontario Teachers	$2,400	25-26	$890
Halterm	Macquarie	$158	22-23	$750
DP World US only	AIG Highstar	$1,100	22-23	
Montreal Gateway (80%)	Morgan Stanley	$410	22-23	
Maher Terminals	RREEF	$2,100	30-35	$1,000
Others include MTC & Amports by AIG Highstar, SSA by Goldman Sachs Infrastructure				

What’s Changing in 2008

- Availability of debt – limited by the overall credit crunch & realization that port cash flows are not endless. A few deals in past two years were very aggressive with debt-to-equity shares of 70/30 or even 80/20. Discipline has returned and equity will have to be an equal or majority partner with the banks

- Cost of debt – if money is available, investors can expect to pay higher rates and face more stringent leverage requirements. Securing debt at 15-16x EBITDA is gone, with leverage now under 10x earnings. Lending rates have risen with credit crisis & recognition of the risks in port business

What's Not Changing in 2008

- Capital is still available from investors – money moving into infrastructure funds as to diversify portfolio, but with a new awareness of return requirements, risks and investment discipline

- Strategic buyers, who were priced out of the market in '06-'07 are reemerging in both build-to-suit concessions (examples: NYK/Tacoma, MOL/Jaxport) & in open bidding (examples: 3 of 5 shortlisted at Oakland & 2 of 4 shortlisted at Philadelphia are carriers or terminal operators)

- Ports/terminal operators are still pursuing PPP/sale opportunities - a Halifax/Montreal terminal (reported for sale by Canadian media), Philadelphia, Baltimore, North Carolina, Jacksonville, Corpus Christi, Oakland, Portland all have concession bids at exploration/pending stage)

Key Considerations for Your PPP Review

- Be patient, be thorough!
- Look internally first at your financing costs & options:
  GO & revenue bonds, taxing authority, trust funds,
  buy/lease backs, public benefit corp. options, etc.
- Be realistic in your value assessment:
  assets, liabilities, business model, future plans
- Be able to explain what you mean to your customers
- PPP strategy should include entry, transition & exit plans
- Is financial maximization the only criteria? Consideration of
  state-wide economic impact?
- Can/will the port authority consider joint ventures?
- Investor interest does not stop at containers
  (bulk, breakbulk, intermodal, etc.)

Thank you!

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