

# THE CARLYLE GROUP

GLOBAL PRIVATE EQUITY



## Presentation to:

Joint Subcommittee Studying Public-Private Partnerships Related to Seaports in Virginia

The Honorable Harry R. Purkey, Chairman

The Honorable Frank W. Wagner, Vice Chairman

December 3, 2009

# Introduction

- Thank you for the opportunity to speak in front of the Joint Subcommittee today
- The Carlyle Group continues to be very interested in pursuing a long-term strategic partnership with the Commonwealth with respect to the seaport assets
- Members of the Carlyle team who are present today
  - Barry Gold - Managing Director and Co-head of Carlyle's infrastructure fund
  - Jeff Holt - Our financial advisor from Bank of Montreal and a seasoned expert in port and intermodal operations
  - Also sitting in the audience are
    - John Flaherty, a Principal at Carlyle with significant public policy experience in transportation, including as the Chief of Staff of the US Department of Transportation under former Secretary Norman Mineta
    - Bryan Lin, a Principal at Carlyle with experience in structuring and leading infrastructure transactions

# A Private Equity Snapshot

- What is private equity?
  - Private equity is thoughtful investment and “active” ownership through continuous support for management
    - Private equity receives its funds from various institutional and private sources
    - Private equity professionals work to improve a company’s business through capital injection and industry expertise while privately owned
    - Private equity firms make money only when the underlying companies are successful over the long term
- Who invests in private equity?
  - Carlyle investors come from both public and private sectors
    - Large state pension plans are Carlyle’s largest group of investors
    - Other investors include foundations, universities, endowments, corporate pension funds, sovereign funds, family trusts, union pension funds, banks and other financial institutions, etc.
- How is a private equity firm different from other financial institutions?
  - It is not a bank, an infrastructure operator, or a builder
  - It is focused on the long term success of the partnership
- How do infrastructure funds in private equity differ from a traditional private equity model?
  - Traditional private equity investors seek higher rates of return and focus on a wide variety of industrial and service sectors
  - Infrastructure funds look for long-term, steady returns and focus on assets and installations of essential service and public benefit
  - Infrastructure funds frequently partner with a public authority on a project

# The Carlyle Group: Success and Long-Term Performance

- The Carlyle Group is one of the largest private equity companies in the world with \$86.1 billion under management
  - Since its founding in 1987, Carlyle has invested \$56.3 billion of equity in 920 transactions
  - More than 450 investment professionals in over 20 countries
  - Current Carlyle portfolio companies have more than \$109 billion in aggregate annual revenue and employ more than 415,000 people around the world
  - Current investments include such household names as:
    - Dunkin' Donuts
    - Hertz Corporation
    - Booz Allen Hamilton, Inc.
    - HD Supply
    - The Nielsen Company
    - AMC Entertainment, Inc.
- How do we achieve our success?
  - Use a conservative investment approach focused on industries we know
  - Align our interests with that of our partners by investing significantly with our own funds
    - more than \$3.6 billion of our own capital committed to various funds
  - Employ a “stick to our knitting” approach and do not chase the latest trends
  - Seek low beta investments; avoid “grand slam home run” efforts in exchange for consistent returns
  - Achieve results without undue financial risks and without sacrificing quality controls and integrity



Booz | Allen | Hamilton

## The Carlyle Advantage: Local Roots and Knowledge

- Carlyle has deep roots in the Commonwealth of Virginia
  - Headquartered in Washington, DC since its inception in 1987
  - Over 150 Carlyle families live in Virginia, including two of the three founders
    - Out of approximately 320 Carlyle staff in its DC headquarters
  - Carlyle companies have over **16,200** employees in Virginia
    - Booz Allen is headquartered in McLean
    - ARINC has offices in Virginia Beach (Norfolk USJFCOM), Hampton, and Dahlgren
    - Other Carlyle companies with offices and facilities in Virginia: HCR Manor Care, Hertz, AMC Entertainment, HD Supply, Kinder Morgan, The Nielsen Company, Dunkin Brands, and MultiPlan
  - Carlyle companies in Virginia generate aggregate annual revenue of \$3.4 billion
  - Carlyle companies in Virginia span across diverse sectors, including aerospace, automotive, consumer, healthcare, industrial, and media
  
- Carlyle's portfolio companies give us first hand experience understanding the strategic importance of the Heartland and Crescent Corridors
  - Carlyle's portfolio companies include **Indiana's Allison Transmission** - the global leader in automatic transmissions for Class V and larger trucks
  - **Veyance Technologies** and the **John Maneely Co.** both in Ohio manufacture conveyor belts for coal mines, tracks for armored tanks and steel tube for the construction and energy industries
  - Carlyle is a significant investor in **Kinder Morgan Industries** which transports its bulk and coal products through its two terminals - one in the Port of Hampton Roads and the other on the Elizabeth River



## Carlyle & Infrastructure: Experience and Expertise

- Ports, intermodal rail and logistics are all businesses Carlyle knows very well
  - Carlyle owns **ITS Technologies and Logistics**, one of the largest providers of intermodal services for 46 rail intermodal facilities in the U.S. and Mexico.
  - Last year Carlyle acquired a 50% ownership in **TVK Shipyard**, a Turkish shipbuilder specializing in chemical tankers and other specialty vessels
  - In 2003 Carlyle acquired **Horizon Lines, LLC**, the largest U.S. container shipping company accounting for all U.S. marine container shipment from the U.S. mainland to Alaska, Hawaii, Guam and Puerto Rico
  - Carlyle owns **Railcar Management, Inc.**, the largest independent provider of comprehensive rail information services to the transportation industry and provides critical transportation and logistics solutions for a variety of participants in the transportation industry, Class I and terminal switching railroads, intermodal yards, railcar leasing companies, rail shippers and barge operators.
  - In 2003 Carlyle acquired **Trenstar, Inc.** which provides logistic and supply chain infrastructure to major manufacturers across a variety of vertical markets.
  
- The Carlyle Virginia Port team's expertise is in transportation management - not transportation real estate
  - Over 75 years of transportation management in maritime, surface, and aviation management and finance with over a dozen commendations and awards by federal, state, and local governments & private industry
    - Barry Gold, Robert Dove, Bryan Lin, John Flaherty, Tomas Peshkatari, Jeff Holt and Eric Zampol

## The Commonwealth and Carlyle Partnership

- The Virginia Port Authority is one of the four remaining major container gateways in the U.S. that does not lease its terminals to private operators
  - VPA has chosen to create a separate operating company, Virginia International Terminal (VIT)
  - Carlyle will propose to enter into a partnership with the VPA to own VIT
- We expect the Port's capacity to expand and we intend to participate in its long term development
  - Our long term plan includes Craney Island and Carlyle is well-positioned to work with VPA and the Commonwealth to find the private investment and secure the necessary federal funding for Craney Island's development
  - Any long term development means partnering with the local cities and their needs as well as the requirement of U.S. facilities. The Carlyle team has experience working with local municipalities on complex transportation issues and first hand experience with the U.S. Navy, Coast Guard, and DOD facilities in the Norfolk area
- The ownership of the Port will not change
  - The Commonwealth will own the Port in perpetuity. The concession will be for the lease of the operations of those terminal assets - not unlike most of the other major ports in North America

## Carlyle and the Virginia Ports: A Genuine Partnership

- Carlyle's infrastructure team is committed to developing true partnerships with public operators of infrastructure assets - not de facto privatization
- We intend to bring much needed private capital and innovation to the delivery of public infrastructure services while maintaining effective government ownership and oversight
- Carlyle's infrastructure team believes that in the PPP there is more to the public role than the infrastructure asset itself
- Enable public sector assets to benefit from private management and capital while balancing public policy initiatives
- Work closely with public sector and strategic sector participants to drive value through expanded market share, operational efficiencies, and capital planning and analysis
- Carlyle Approach: Partnership is the most important "P" in PPP
  - Resolve potential issues while gaining benefits
  - Align interests and incentives
  - Create value by jointly building the business



## Carlyle's Most Recent PPP Experience - CT Service Areas

- On November 19, 2009, Carlyle, Subway Restaurants and the State of Connecticut announced a PPP transaction to redevelop, operate and maintain Connecticut's 23 highway service areas

### *Economic Benefit*

- The long-term agreement is expected to generate approximately \$500 million in economic benefit from the redevelopment

### *Job Creation*

- The construction project and expanded operations are expected to create approximately 340 jobs

### *Public Accountability and Oversight*

- The Carlyle / Subway joint venture will be held to high performance standards to ensure the quality of services offered to the traveling public

### *Alignment of Interests*

- The PPP is structured to align interests between the public and private sectors through revenue sharing and required investment in the assets

Connecticut Governor M. Jodi Rell called the project "an unprecedented commitment to economic development, jobs and meeting the needs of the traveling public."

