

A decorative graphic consisting of several parallel, wavy lines in shades of blue and white, resembling a stylized mountain range or a signal waveform, spanning the width of the slide.

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## **European International Contractors Autumn Assembly 2013 Seville**

October 18 2013

**“Key Success Factors for Closing PPPs and project finance deals”**

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**What makes a successful closing?**

**Reasonable Market Conditions**

**Effective  
Procurement  
Processes**

**Finance  
Availability  
Value for  
Money**

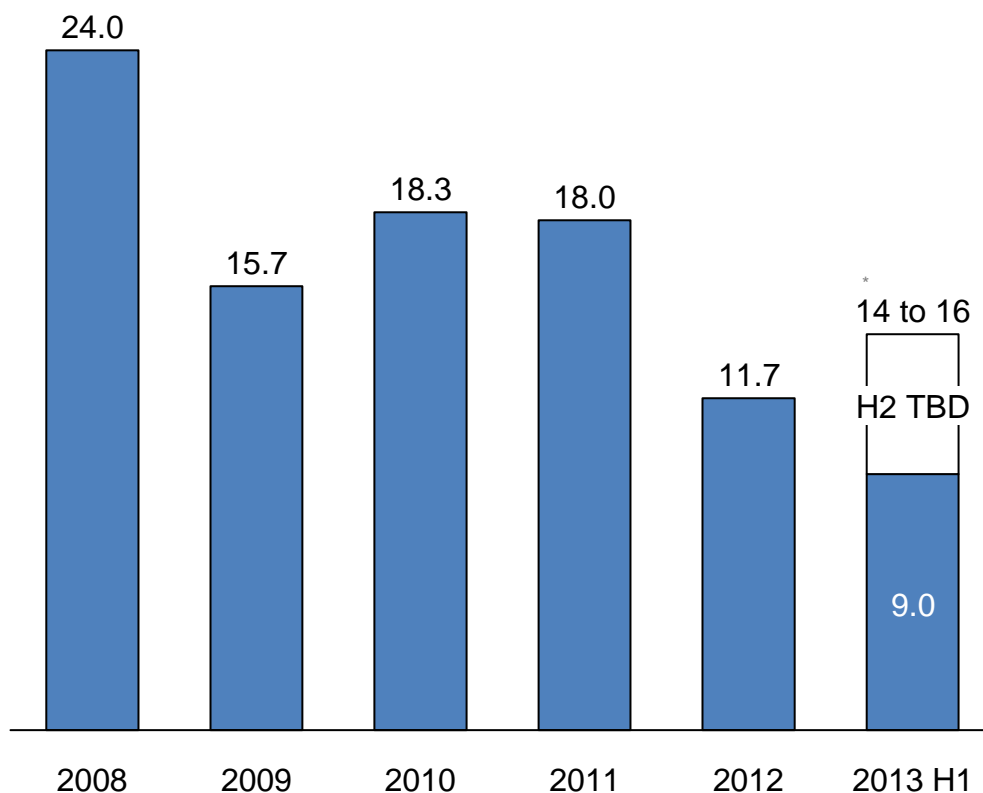
**Public Sector  
Alignment  
Interest  
Willingness**

**Private Sector  
Experience  
Balanced Contracts  
Robustness**

- 1 Factors in a successful closing, experience and case studies
- 2 Pipeline and effective procurement
- 3 Public Sector Alignment
- 4 Private Sector Perspective
- 5 Availability of financing

## 2013 European PPP Market Review: Strong need for closings of PPPs

### European PPP Market – 2008-2013 (in € bn)

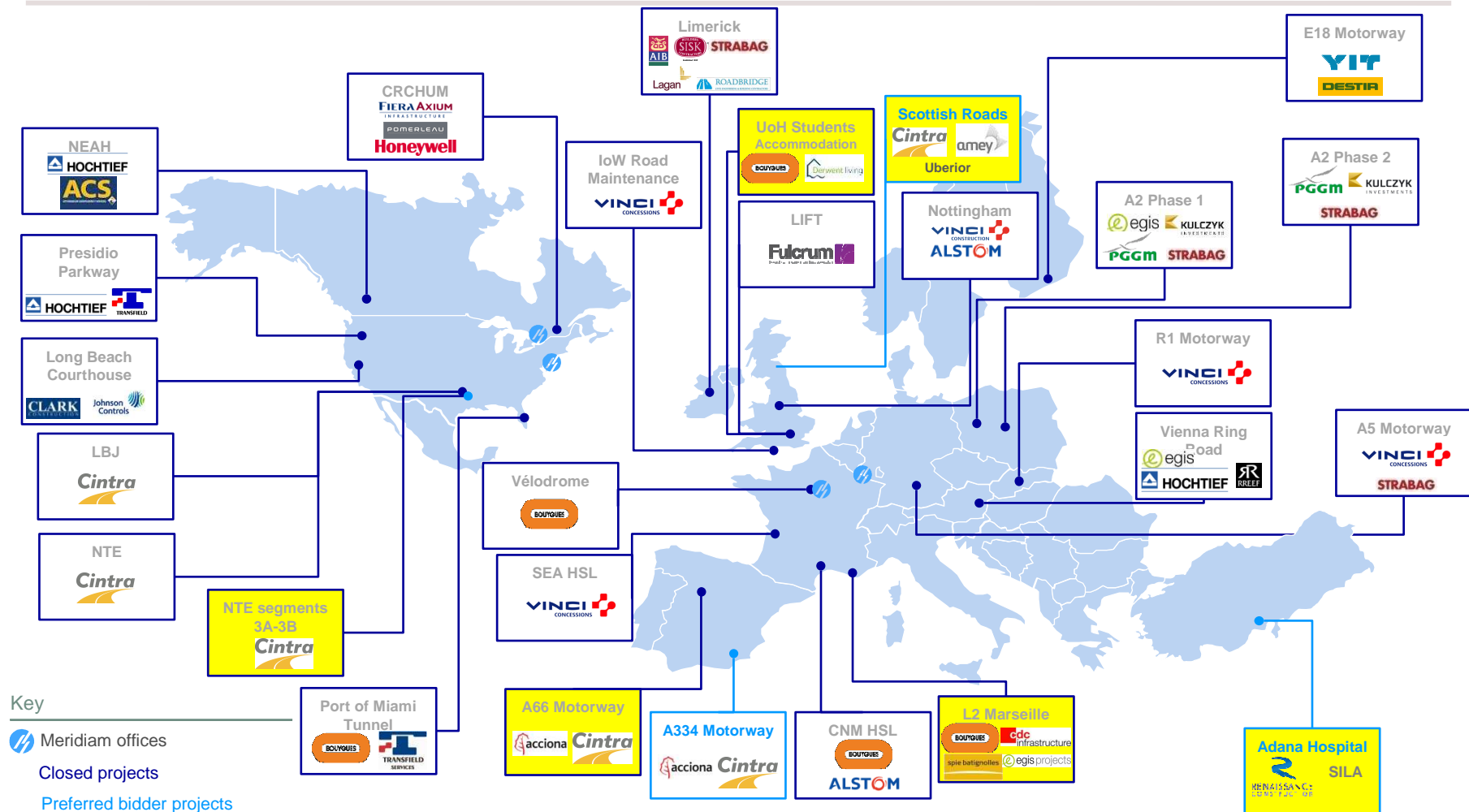


### Comments

- Total infrastructure requirements for the EU to 2020 estimated in region of €1.5trn with much private sector investment
- PPPs only expected to provide in region of €100bn over this period – therefore need for successful closings is strong to fill gap between forecasts and reality
- Only four large transactions reached financial close in H1 2013. Their combined value accounted for more than 70% of the overall European market. These were:
  - the BreBeMi motorway (EUR 2.3 billion) in Italy;
  - the Thameslink rolling stock (EUR 1.9 billion) in the UK;
  - phase 1 of the Gebze-Izmir road (EUR 1.1 billion) in Turkey; and
  - the A1/A6 Schipol-Amsterdam-Almere motorway (EUR 1 billion) in the Netherlands

# Key Success Factors for Closing PPPs and Project Finance Deals

Meridiam is 25 year long term PPP investment fund focussing on greenfield with 24 successful closings to date and 2 preferred bidder positions \$3.5bn FUM and supporting the creation of some \$25bn of infrastructure – lot of closing experience



## Active Projects



## Procurement Processes

- **EU market continues to generate projects with various levels of activity** – procurement regimes not standardised and some public sector entities struggling with new financing models
- **UK:** Recent significant review of procurement activity to ensure faster, more efficient delivery with more centralisation and experience centred – much input from Canadian model – attempt to remove political influencing from decision making.
- **Netherlands** – determined effort to develop a good pipeline with clear procurement programme leading to number of financial closes
- **Finland** : particularly effective in closing programme – 13 months from project announcement to financial close – parliamentary vote on total amount available for project – limited political influencing on project decision
- **Ireland:** historically a clear programme, clearly followed timetables, effective centralised decision making, strong advisory capacity
- **Turkey:** Turkey is very active particularly the PPP hospital programme – number of commercial closes but as yet no financial

# Key Success Factors for Closing PPPs and Project Finance Deals: Recent case studies

## L2 Marseille(France) Closed Oct 7 2013

 30 years

**Design, construction, and maintenance** of a new section of 9.5 km of partially cut-and-covered motorway, that will link the A50 in the South-East to the A7 in the North.

- Revenue generation: availability payments
- Total Project cost: c. €700 million



- Meridiam has a 35% stake in the winning consortium which also includes Bouygues, Spie Batignolles, Egis Group and CDC Infrastructure Group
- The project will divert traffic from the city centre, improving the quality of life of many Marseilles residents, and will contribute to the urban regeneration of the city.
- **Bond financing to be implemented from Financial Close** (bond to be entirely placed with Allianz).

## Adana Healthcare(Turkey) Commercial Close

 28 years

**Design, build, operation and maintenance** of 6 facilities with a 1,550 total bed capacity

- Revenue generation: availability payments
- Total Project cost: c. €500 million



- Meridiam has partnered with Ronesans, one of the largest contractors in Turkey with extensive international experience
- Meridiam will invest through Meridiam Infrastructure Eastern Europe

- ✓ Critical that the public sector is onside...and focussed....
- ✓ Has the public sector got the capacity to engage and close?
- ✓ Is the project viewed as value for money by all on the public side? This decision should have been made following the competitive process but may require final review make sure relationships between sponsoring Ministries eg Transport or Environment and Ministry of Finance are good otherwise delays and in worse case, cancellations, may occur
- ✓ At what stage in the political cycle is the closing occurring – well known example of Slovakian transaction that was almost ready to close but due to election fell at the last hurdle – if possible stay away from election dates
- ✓ Are there any extra approvals needed?
- ✓ Check there is support and political credibility behind the project otherwise may never sign



### **Checklist : PPP contract and financial close – proposals from EPEC**

- ✓ Has the negotiating authority been assembled and empowered to take decisions on the issues pertaining to the PPP contract?
- ✓ Have the Authority and the negotiating team agreed a negotiating strategy, including 1) an assessment of the position of the Authority on key issues and 2) a risk management strategy
- ✓ Have the legal advisers evaluated the marked up draft PPP contract proposed by the bidders, assessing it against its risk allocation and value for money targets?
- ✓ Have the financial advisers assessed affordability, project costs, sources and costs of funding and project bankability?
- ✓ Have the negotiations resulted in terms and conditions that vary substantially and materially from the bid offer and therefore could be open to challenge because they are less favourable or could have resulted in the selection of a different bidder?
- ✓ Have all the legal and administrative requirements of contract award been complied with?
- ✓ Is the final PPP contract still affordable and does it represent value for money?

## Key Success Factors: Private sector perspective – clear defined contracts and approval processes

- ✓ Provision of a detailed fixed-price, date-certain construction contract which clearly states responsibility for the risk of delays and cost overruns;
- ✓ Risk analysis and apportionment of the technical engineering aspects, including reviews of the land title and tenure, the design and scope of the project, the nature of the construction itself and any unusual engineering challenges;
- ✓ Analysis of the reliability and financial strength of the contracting parties including the previous relevant experience, levels of competing workload, availability of labour and other materials and the degree of exposure to specification changes by the grantor.
- ✓ Ensuring that the initial contracts deal adequately with all material matters and that there are appropriate rights for the SPV in relation to the control of the subcontracts, and
- ✓ Careful structuring of stage payments and financial bonds

### North Tarrant Express Segments 3A & 3B (Texas) Financial close reached in September 2013 48 years

**Design, construction** of a new section of 6.2 miles of Managed Lanes and General Purpose Lanes, as well as the operation and maintenance of this section with another 4 miles of Managed and General Purpose Lanes

- *Revenue generation: user paid tolls*
- *Total project cost: \$1.4 billion*



- The project aims at providing faster and more reliable traffic options in a highly congested corridor, which cannot currently keep up with the strong population and economic growth of the Dallas-Forth-Worth metropolis.
- The Segment 3A project involves rebuilding 6.5 miles of the existing main lanes of I-35W, constructing new, expanded frontage roads, and expanding the highway with the addition of two TEXpress lanes (or managed toll lanes) in both directions.
- Construction for Segment 3A is expected to begin this fall, with substantial completion in 2018. In addition, Segment 3B is being constructed by TxDOT and will be operated by the Project Company together with Segment 3A.
- Meridiam is conducting the project with Cintra, a world leading developer of road projects and the Dallas Police and Fire System, which provides pensions to retired police officers and firefighters in Texas
- Financing is based on a robust structure with long term Private Activity Bonds (PABs) and strong support from TIFIA (long-term federal financing with low cost and flexible repayment profile)

## **1** Increased liquidity for financing of infrastructure projects

This renewed liquidity is materializing in projects closing in the market and is creating a better climate for new projects to emerge.

## **2** Growing share of funding at the European level

- During the 2007-2013 period: € 8 billion was allocated at EU level for the TEN-T Network
- Infrastructure is a core focus of the 2012 European growth package
- Going ahead, for the 2014-2020 multiannual financing framework, € 30 billion has been allocated by the European Council for the Connecting Europe Facility and final implementation is currently in process.
- Concentration effect: shift from minority co-financing to “game changer” participation (up to 40% of project)
- Development phase of PPP projects can also be funded

## **3** Development of long-term contractual structures for energy and environment projects (OFTOs, heating supply networks)

# Key Success Factors – financing availability and value for money



## **Banks' ability to finance is reducing**

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- Structural changes in the market have made bank debt less relevant to finance infrastructure:
  - Higher pricing seems inevitable with banks' rise in cost of funds
  - Tenors have become shorter (appetite for <10y) due to Basel III capital requirements
- Only a limited number of banks are still active to lend on a long term basis for larger projects

## **Institutional investors' interest is growing**

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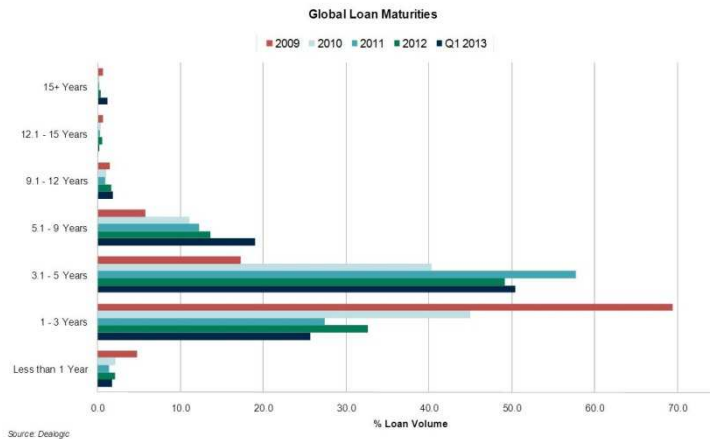
- Investors hold long term liabilities that naturally match infrastructure's funding requirements
- Infrastructure debt can provide higher yield while benefitting from the robustness and stability of essential infrastructure assets
- There is also a potential inflation hedge in some cases

## **Market initiatives**

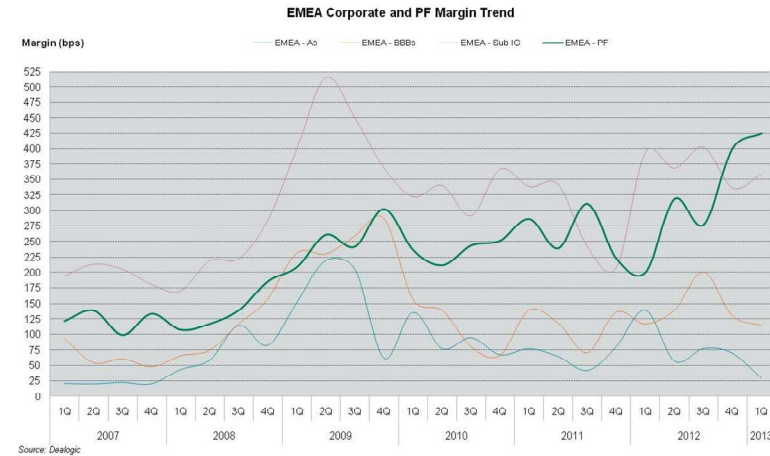
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- Project Bond initiative by the European Commission and European Investment Bank (EIB)
- Debt funds
- "Hybrid solutions" providing a combination of bank and bond lending solutions (e.g. Natixis / Ageas or Natixis / CNP initiatives)
- Debt Products Managers platforms developed "in-house" (e.g. Allianz, MetLife, APG, AXA, AVIVA)

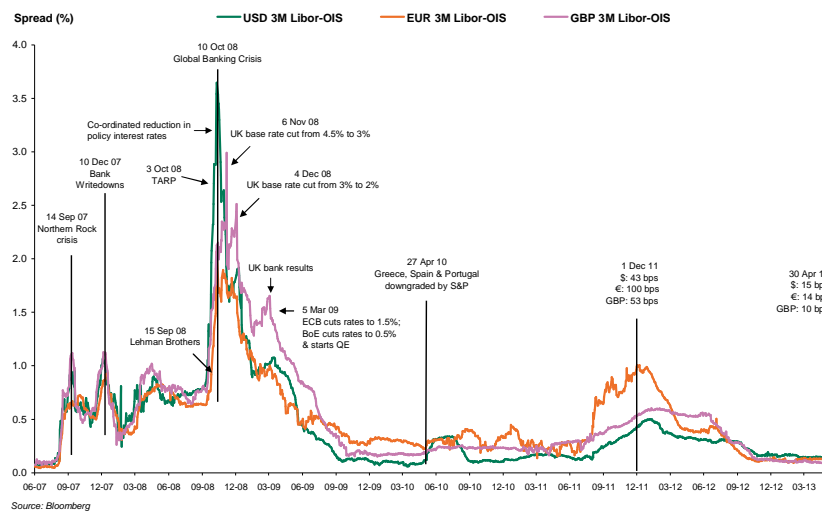
## Share of longer-term debt is picking up



## PF margins compare favorably to corporate



## Short-term liquidity costs have dropped



## Banks' funding costs are down from 2011-2012 peaks

