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# INDIANA TOLL ROAD

## *Public Acquisition Alternatives*



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# EXECUTIVE SUMMARY

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- **The Indiana Toll Road Concession Company has filed for Chapter 11 bankruptcy due to financial performance that has fallen well short of expectations**
  - Activist hedge funds buying European bank holdings has accelerated resolution of payment default
  - Cintra will continue to serve as operator of the ITR concession during the bankruptcy proceedings
  - Restructuring is being fast-tracked with final bids due by February
- **Capital inflows to the infrastructure and P3 market have combined with low rates to establish a fertile market for infrastructure asset sales at full valuation levels**
  - Large equity contribution is attractive because private funds need to put the equity to work or return the fund raise
  - Secondary trades prior to Chapter 11 filing valued ITR debt at approximately \$4.00B
  - One of the consortia groups includes Cintra (current operator) partnering with Canadian Pension Plan Investment Board
- **Reorganization plan assumes \$2.75 billion in debt (\$2.0 billion senior lien debt rated in the BBB category and \$750 million subordinate lien below investment grade debt)**
  - Total valuation ranges quoted in the industry press have been quoted in the \$4-\$5 billion range, which assumes equity levels of \$1.25 billion to \$2.25 billion
- **A potential public bid of the ITR will need a minimum level of \$4 billion**
  - Public acquisition could be pursued with a consortium of municipal counties that encompass the ITR
  - Not-for-profit corporation would be established to issue municipal bonds to acquire the ITR (non-recourse to the participating Counties)
  - Excess cash flow after debt service would be available to participating Counties
  - Current market dynamics are favorable for a potential public acquisition (low municipal supply and significant demand for high yield municipal debt)

*Piper Jaffray estimates a non-recourse public acquisition would exceed \$4 billion*

# SITUATIONAL ASSESSMENT

## Terms of the reorganization ITR restructuring loans

Senior and Subordinate Loan Terms		
	Senior Lien	Subordinate
Par	\$2,000,000,000	\$750,000,000
Rating	BBB-	Non-rated
Term	5-Yr Amortizing	5.5 Yr Amortizing
Minimum Debt Service Coverage	1.60x Senior Lien	1.30x Aggregate
Rate	Libor* + 250 bps	Libor + 600 bps Libor + 800 bps (PIK Rate)
Prepayment	No penalty	No penalty
Debt Service Reserve Fund	1 year of senior P&I	1 year of subordinate P&I
Hedging	50% of senior debt must be hedged by the end of the first year	No requirement

\*Libor floor of 1%

# HISTORICAL TRANSACTION COMPARABLES

- ITR secondary trades and recent Queensland Motorways (Australia) transaction suggests private capital is willing to pay a premium for the opportunity to contribute large equity levels
- This is driven by the relative shortage of large infrastructure assets combined with the large amount of capital inflows into the private infrastructure market \*
- Given the recent high transaction multiples, it is likely that a public acquisition would need to exceed \$4 billion

Asset	Buyer	Year	Public or Private	Price (\$mm)	Notes
Indiana Toll Road	Reorganization Plan	2014	Private	\$4.2 billion (26.4x)	Distressed debt secondary trades quoted at \$.70 prior to Chapter 11 filing
Queensland Motorways	Transurban (62.5%), Australian Super (25.0%) and Abu Dhabi Investment Authority (12.5%)	2014	Private	\$7.06 billion (27.5x '14 EBITDA)	Brownfield Urban road network acquired from QIC; Debt to Equity ratio of 39% to 61% \$4.3 billion equity raised through a share issue
Puerto Rico PR22 / 5	Albertis/Goldman Sachs	2011	Private	\$1,136 (14.5x '11 EBITDA)	
South Bay Expressway	San Diego Association of Regional Gov'ts	2011 (following Ch 11)	Public	\$352 (31.0x '10 EBITDA)	Eliminated the need to fund \$200mm in improvements on parallel road, toll rates lowered

Minimum	14.5x
Mean	26.4x
Median	27.5x
Maximum	32.4x

# ESTIMATED ITR RETURN ON EQUITY AT PRELIMINARY VALUATION RANGES

EBITDA Valuation Multiple		
	Low	High
Debt (\$000)	2,750,000	2,750,000
Equity (\$000)	1,500,000	2,250,000
Total Capital (\$000)	4,250,000	5,000,000
Debt Capital % of Total	65%	55%
Equity Capital % of Total	35%	45%
ITR 2013 EBITDA (\$000)	159,515	165,388
ITR EBITDA Multiple	26.64x	30.23x

Estimated Return on Equity				
Equity Scenario	EBITDA Growth Rate			
	2.00%	4.00%	8.00%	10.00%
Low	2.70%	7.11%	12.34%	14.46%
High	1.27%	5.53%	10.57%	12.63%

- **Substantial EBITDA growth rates required to meet reasonable returns at equity contributions currently being discussed**
- **Suggests valuation may end up at the lower end of the range**

Pro Forma Post Acquisition Financing (\$ Millions) <sup>1</sup>					
	2015	2016	2017	2018	2019
Toll Revenues	218.00	217.90	221.40	242.60	261.60
Total Other Revenue	10.80	11.00	11.30	11.60	11.80
Total Revenue	228.88	228.90	232.72	254.30	273.48
Total Operating Expense	37.80	38.60	39.40	40.50	41.80
EBITDA	191.08	190.30	193.32	213.80	231.68
Capex	(13.70)	(23.10)	(22.00)	(39.00)	(40.50)
Cash Interest	(71.10)	(145.90)	(151.70)	(154.40)	(155.70)
Taxes	0.00	0.00	0.00	0.00	0.00
Borrowing / (Repayment of Debt)	(6.40)	(12.80)	(13.50)	(15.10)	(22.80)
Cash, Beginning of Period	163.40	167.60	176.10	182.22	187.51
Change in Cash	4.20	8.50	6.12	5.30	12.68
Cash, End of Period	167.60	176.10	182.22	187.51	200.19
Interest Coverage	2.69x	1.30x	1.27x	1.38x	1.49x
Debt Service Coverage	2.47x	1.20x	1.17x	1.26x	1.30x
Debt to EBITDA	14.36	14.35	14.06	12.64	11.57

1) Based on Bankruptcy filing Documents

# PUBLIC ACQUISITION ALTERNATIVES

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## Potential public acquisition alternatives include:

### State acquisition through the IFA

- State has shown little interest in a reacquisition

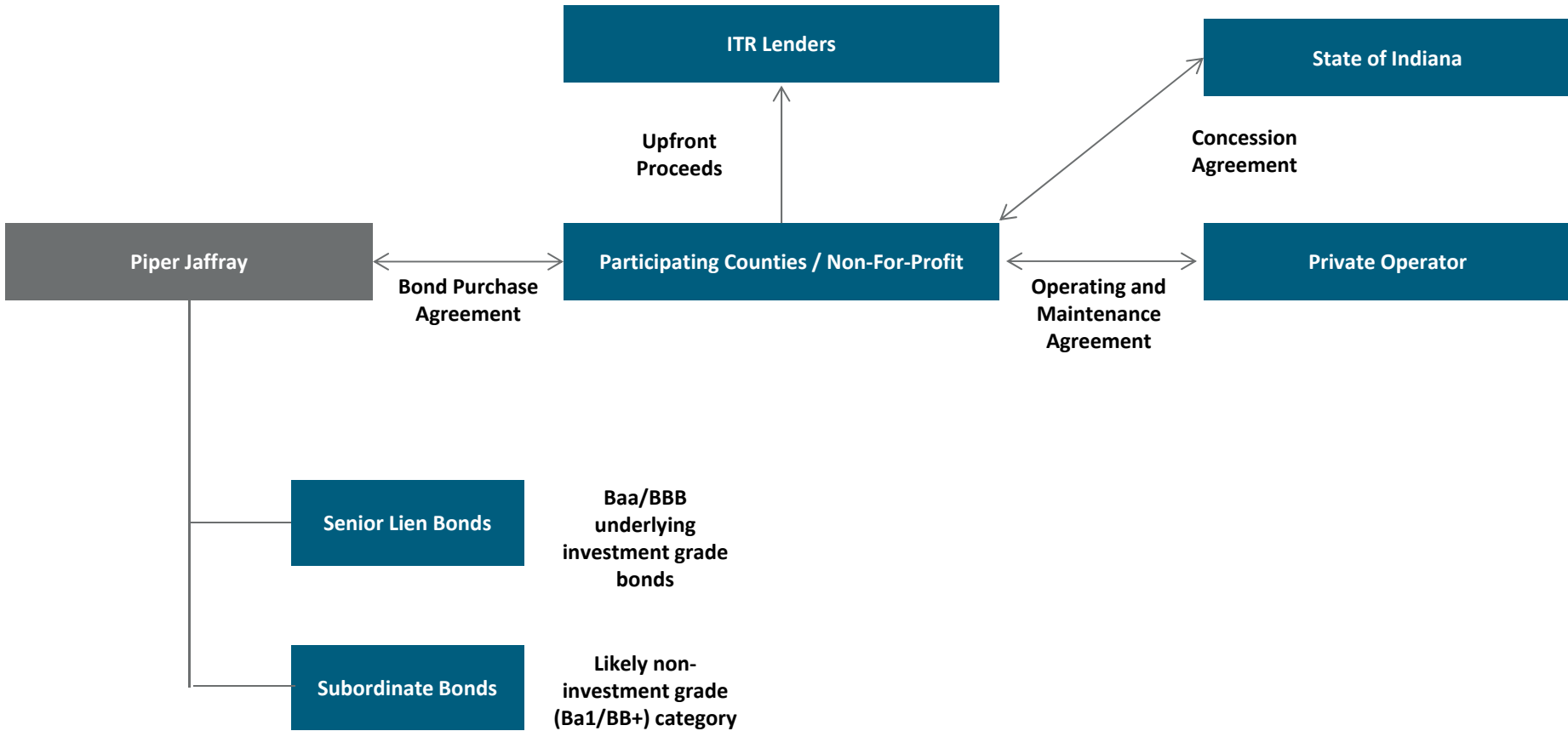
### An outright sale to another public owner

- Low cost of capital
- Higher potential valuation if backstopped by a municipal entity but poses risk in the case of a potential default

### Potential sale to a non-for-profit ownership vehicle

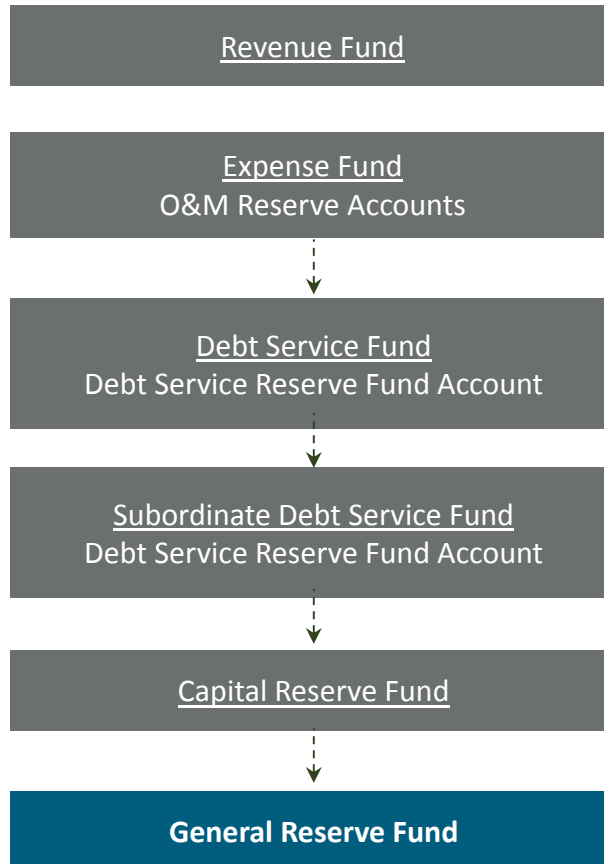
- Insulates the county governmental entities financially by issuance of county-government sponsored non-recourse debt
- Needs sponsorship by a governmental entity that has the power to own the ITR
- Continued private operations (non-for-profit would need to find a new private operator)
- Excess revenues flows would be available to the municipality
- Low cost of capital

# MECHANICS OF A PUBLIC ACQUISITION APPROACH



# FLOW OF FUNDS

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*Available to the  
Counties Free and  
Clear*



## ESTABLISHING A NON-FOR-PROFIT CONDUIT TO ACQUIRE THE ITR

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- A non-for-profit conduit issuer provides access to the municipal bond market
- Number of different potential alternatives
- Requires an independent Board of Directors in order to avoid consolidation of financial statements
- One established conduit is the National Development Corporation (“NDC”) which was formed in 1969 with the objective to increasing the flow of capital to underserved urban and rural areas for job creation and community development
- NDC has debt issuing authority, enabling it to serve as a potential conduit issuer
- Government “sponsorship” provides the flexibility to both meet the required bond covenants and the public policy needs of Northern Indiana
- Excess cash flow after debt service and capital expenditures would be distributed to the participating Counties

# SOURCES OF CAPITAL

## Assumptions

- Assumes 3.5% long-term revenue growth
- 2% operating expense growth
- Senior debt sized to 1.50x coverage
- Subordinate debt sized to 1.25x coverage

## Results

- Total of \$4.1 billion in total debt issued
  - \$3.2 billion senior and \$871.6 million subordinate
- Approximately \$3.6 billion available for acquisition payment
- Additional proceeds can be generated through additional subordinate debt but would reduce amounts available to the Counties for distribution

## Sources and Uses of Funds (\$Millions)

	Senior	Sub	Total
<b>Sources</b>			
Bond Par Amount	2,985.05	702.93	3,687.98
Bond Premium	231.01	0.00	231.01
<b>Total Sources of Funds</b>	<b>3,216.06</b>	<b>702.93</b>	<b>3,918.99</b>
<b>Uses</b>			
Acquisition Costs	3,064.50	671.46	3,735.96
Reserves	121.71	24.44	146.15
Issuance Costs	29.85	7.03	36.88
<b>Total Uses of Funds</b>	<b>3,216.06</b>	<b>702.93</b>	<b>3,918.99</b>

## Summary Statistics

Settlement Date	7/1/2015
Last Maturity	7/1/2055
All-In TIC	4.74%
Average Life	20.47

## PROFORMA RESULTS

- Assumes capital expenditures are paid from a combination of Reserves and excess cash flow

### Proforma (\$Millions)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Toll Revenues	217.90	221.40	242.60	261.60	270.76	280.23	290.04	300.19	310.70
% Growth	-0.05%	1.61%	9.58%	7.83%	3.50%	3.50%	3.50%	3.50%	3.50%
Total Other Revenue	11.00	11.30	11.60	11.80	12.21	12.64	13.08	13.54	14.01
Total Revenue	228.90	232.72	254.30	273.48	270.79	280.27	290.08	300.23	310.73
Total Operating Expense	38.60	39.40	40.50	41.80	42.64	43.49	44.36	45.25	46.15
EBITDA	190.30	193.32	213.80	231.68	228.16	236.78	245.72	254.98	264.58
EBITDA Growth	-0.41%	1.59%	10.59%	8.36%	-1.52%	3.78%	3.77%	3.77%	3.77%
Senior Debt	126.86	128.87	142.53	154.45	152.10	157.85	163.81	169.99	176.38
Subordinate Debt	25.37	25.77	28.50	30.89	30.42	31.57	32.76	33.99	35.28
Cash Flow avail for Capex & Counties distribution	38.06	38.67	42.76	46.34	45.64	47.36	49.15	51.00	52.92
Senior Debt Service Coverage	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x
Subordinate Debt Service Coverage	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x	1.25x

## NEXT STEPS

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- Determine requirements associated with current restructuring effort
- Request documents being provided to bidders
- Identify counties for possible participation in the acquisition
  - Approve bond ordinances to confirm interest in pursuing a public acquisition
- Select a non-for-profit public conduit
- Identify a private operator
- Development covenant package and financial model for the rating agencies
- Select bond counsel for drafting an indenture

## REQUIRED REGULATORY DISCLOSURES

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