Northwest Parkway acquisition, US

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The financing of the acquisition of the Northwest Parkway toll road in Denver, Colorado, has gone beyond prior toll road acquisitions last year to further utilise and test the liquidity of the US private placement market. The market has proven its flexibility and capability to back bidders with committed financing and terms during a competitive M&A process.

On 2 December 2016 the Portuguese toll road company Brisa agreed to sell the Northwest Parkway to a consortium of UK-listed fund HICL, Dutch fund DIF Infrastructure IV and Canadian manager Northleaf Capital's first and second infrastructure funds.

For InfraRed-managed HICL this is the fund's first US investment, while for manager DIF it is the first transport investment in the country. Northleaf's infrastructure portfolio on the other hand already includes Chicago's Millennium Garages, a US parking concession business.

An M&A private placement

On 9 March 2017 the consortium reached financial close on their acquisition of the Northwest Parkway, paying roughly $499 million for 100% equity, or $166.4 million for 33.33% each. Of DIF's equity portion, $66 million was through co-investments including for client BlackRock.

Other bidders for the asset included Public Sector Pension Investment Board's road platform Roadis and Globalvia.

On top of the equity the buyers raised a new financing package. But unusually this was a US private placement that had been broadly marketed and subscribed to by approximately 12 institutions, predominantly the typical US investors. An adviser on the deal said: "The consortium submitted commitment letters from investors, with typical acquisition terms, as part of the auction process in the final bids."

The institutions were able to subscribe to two different maturities, as there was a 10-year tranche and a 20-year tranche. The senior secured, fixed-rate notes are rated privately, and achieved investment grade. Barclays was placement agent for the private placement. Leverage is understood to be at the relatively low end for an asset of this type, which would tend to have leverage between 40-60% a source said.

Speaking to another local US private placement agent, *IJGlobal* understands the regulars and likely buyers on the US's private placement market for infrastructure debt include, for example: AIG, Prudential, Manulife, MassMutual and Liberty Mutual.

Moving on from the US toll road acquisitions that only recently preceded it – the Indiana Toll Road in 2015 followed by the Chicago Skyway and Pocahontas Parkway – the financing during this M&A process marked a further test for the US private placement market. ITR had featured a short-term bridge at the point of acquisition, Chicago Skyway featured a combination of long-term private placement and shorter-term bank debt for the final bid. Globalvia on Pocahontas went straight to raising all its acquisition debt as a private placement, but placed with only one subscriber Allianz Global Investors. AllianzGI had earned its experience providing debt for all those three assets. For Northwest Parkway, all financing is long-term notes, and further still it was broadly marketed ahead of the final bid.

Optimistic forecasting

The seller is Brisa, whose core business is six Portuguese motorway concessions. Brisa is owned by an infrastructure fund manager Arcus Infrastructure Partners and the Mello family.

Brisa and Brazilian partner Companhia de Concessoes Rodoviarias won a 99-year lease in 2007 from the Northwest Parkway Public Highway Authority, though by that stage the road had been operational since 2003. Therefore there is over a decade of operational history and over 90 years remaining on the operating lease.

The authority first put together its forecast for traffic in 2001, but in 2005 Fitch Ratings stated the gap between forecast and real traffic was widening. The revenue in 2004 was 67% of the forecast, and by 2005 revenue, though greater, had slid to 54% of the forecast and the authority was therefore tendering a lease. Fitch had forecast the authority would be encountering problems with debt service by 2008-2009. The intention was to use the upfront fee from a lease to repay bonds.

Fitch in November 2007 removed its rating, which stood at the time at CCC+ for the bonds issued by the Northwest Parkway Public Highway Authority, and the bonds were defeased when the concession signed. Brisa and its partner paid $603 million for the lease, including paying for two extensions, and raised a $459 million 10-year debt package from banks, in 2007 just ahead of the financial downturn.

The Northwest Parkway toll road is a 14km stretch of highway, arching across Denver's north-western suburbs linking residential areas with roads into the city centre. The road connects to several tolled and non-tolled highways including the E-470, I-25, US-36 and US-287. The asset includes bridge structures, interchanges, a maintenance yard and also solar sites.

Advisers

The buying consortium were advised by Agentis Capital (financial) and Norton Rose Fulbright (legal). Barclays was placement agent and Greenberg Traurig noteholders' legal adviser. For the seller Moelis was financial adviser and Kirkland & Ellis legal adviser.

***Image courtesy of NorthwestParkway.org*

