Public Private Partnerships

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Globalvia – A success story

Globalvia is a worldwide concession management leader, ranked among the top positions by number of concessions for the last ten years, according to the specialized infrastructure publication Public Works Financing. The company, established in 2007, manages 27 projects in eight different countries (including the US) specializing in highways and railways. Globalvia was created in 2007, and is owned by Caja Madrid (Bankia) and FCC.

Globalvia has faced complicated situations, such as a shareholder asking for a bailout, some of its assets not being viable, and the Spanish Administration delaying payments.

However, on 28 February 2017, Globalvia management agreed to raise €974 million in capital by compensating its convertible debt. This operation (hereinafter the Conversion) was the culmination of a process of transforming and growing Globalvia that began more than five years ago and at the same time marks the beginning of a new and exciting period for the company.

The first commitment to Globalvia of €250 million in pension funds in the form of convertible debentures with a 5-year maturity date took place back in February 2012.

This transaction was possible thanks to the successful strategy of presenting Globalvia's business plan and its capability to create value to institutional investors (and more specifically to Pension Funds), at an especially complex period of time, due to the global financial crisis, and more particularly to doubts regarding the risk of Spain leaving the European Monetary Union.

The convertible debt significantly improved the liquidity position of Globalvia, by guaranteeing long term funding for its capital commitments, mostly in connection with concessions under construction at that time, which included two highways (located in Portugal and Mexico) and a railway (in the south of Spain).

In addition, the convertible bond provided a credit facility of €500 million, in order to enable Globalvia to create value for shareholders by making new investments.

These additional funds and, again, Globalvia's success in locating, analyzing and executing investment opportunities, made it possible for Globalvia to:

- Complete the company's former participation in highways such as Ruta 27 (Costa Rica), Ruta de los Pantanos and Túnel de Sóller (Spain), and more recently in Scutvias and Transmontana (Portugal).

- Acquire stakes in new concessions, including Metro de Sevilla, Tranvías de Barcelona, and our first investment in the United States - the Pocahontas Parkway - which involved both a quantitative and qualitative leap in Globalvia's portfolio, affecting not only the size of our balance sheet but also the profitability and stability of our investments, not to mention Globalvia's position as a leader in the world-wide infrastructure market.

As provided for in the Convertible Debt contract, in conjunction with EY and KPMG, the valuation process for Globalvia started in August 2016 (six months before the scheduled conversion date). The swiftness with which the appraisal was completed is evidence of the quality of the group's internal financial models, and the efficient organization and availability of the relevant information regarding our concessions.

The first change resulting from the conversion of the bonds into shares was expected to be the entrance of OP Trust, PGGM and USS as Globalvia shareholders, alongside Bankia and FCC. Obviously, the execution of the pre-emption acquisition rights by those pension funds in March 2016 made them the sole shareholders of Globalvia as of that date. However, the most important impact of the conversion on Globalvia is undoubtedly the boost in the company's financial strength and the creditworthiness of our balance sheet. Globalvia's equity has increased, as a consequence of the conversion, by €974 million, bringing the total to €1,724 million. For a better idea of what that equity means, suffice is to say that it is in line with the stock market capitalization of publicly listed companies included in the Ibex35.

In relation to the income statement, the conversion also marks a turning point for Globalvia in the sense that it represents savings of €100 million per year in financing costs. Moreover, the new shareholder structure following the purchase of Globalvia has made it possible to harmonize the conversion with the maintenance of our consolidated tax group in Spain, which will permit a more effective use of our tax loss carryforwards and deductions.

Operations such as this demonstrate that the infrastructure sector provides attractive opportunities for investors. This asset type offers investors a strongly differentiated set of characteristics compared to others. Investors gain the opportunity to include long duration assets, often with a lifespan of over thirty years, within their portfolios, with much lower risks and more stable cash flows.

On the other hand, as a P3 company, Globalvia has the backing of a strong partner that has improved company equity and income statement, allowing it to renew its growth strategy. There is no doubt that this new shareholder structure will allow the company to add new infrastructure concessionaires to its portfolio. This will thus result in more opportunities to deliver better services to our communities.

By Alberto García García, Chief Financial Officer at Globavia