



## Think Strategically: IPOs, Fed Raises Rates U.S. Budget & P.R. Debt Service Impacted

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### Initial Public Offerings for Week

Company	Ticker	Exchange	Price Range	Shares	Date
Alteryx	AYK	NYSE	\$12-\$14	9,000,000	3-20-2017
Valeritas Hold	VLRX	Nasdaq	\$9-\$11	6,000,000	3-20-2017

### Federal Reserve to continue rate hikes

As anticipated, the Federal Reserve Bank raised its rates a quarter of a percent during its March 15 meeting, with Fed Chair Yellen indicating that the market should expect additional rate action. The economic forecasts have not changed much since the last rate hike in December and suggest that the pace for future rate hikes would be gradual. The Fed has confidence the U.S. economic recovery is robust and is resistant to market shocks. The economic conditions today are more favorable than in December, with the Dow Jones hovering at 21,000 points, the 10-year U.S. Treasury note yield is lower, the jobs rates is increasing; the dollar is weaker; and corporate bond spreads are narrower than before. Do not be surprised if we see two to three more rate increases in 2017. Moving on to Puerto Rico, the impact that these rate hikes has on our economy is initially small; however, business will hold off investments, hiring, capital expenditures and other initiatives with the expectation that more rate hikes are to come.

### President Trump's first budget proposal

President Donald Trump submitted his first proposed budget for fiscal year 2018, which begins Oct. 1 of this year, and it reflects his government-spending priorities and fulfills many of his promises.

As reported, the budget provides increases of \$54 billion to defense, veterans care and homeland security and reduces domestic spending by \$54 billion, including transportation, justice, agriculture, housing, community development and environmental protection. The proposal is considered by many to be "extra skinny" because it is more abbreviated than the full budget proposals that we can expect to see in subsequent years. New presidents usually submit a lean budget in their first year of office.

Presidential budget proposals, like the one put forth this week, are not written in stone since Congress ultimately will write its funding bills for the government. The big takeaway is that the budget seems to be consistent with mainstream Republican priorities.

### P.R. Update: Fiscal Plan & debt service impacted

As reported, the Fiscal Oversight Board approved Gov. Rosselló's Fiscal Plan on March 13, in New York; among the major items in the approved Fiscal Plan is an increased commitment to fiscal responsibility and an effort to implement specific revenue enhancements and expenditure reductions. The goal is to return Puerto Rico to fiscal stability and economic growth. In particular, the Fiscal Plan attempts to bridge the \$67 billion budget deficit from the

prior administration's plan and estimates more than \$7.9 billion in cumulative cash flow for debt service over a 10-year period. Several economists argue that this plan is not achievable. There are many hurdles and metrics to be overcome before anyone can "claim victory." The modified Fiscal Plan, certified on March 13, provides for debt-service payments of \$800 million, which fall short of the amount required by an average of \$2.551 billion during the next 10 years. Presuming this is the total available for debt service, bondholders may face a haircut of more than 75% on the value of their bonds. Some had proposed that the government implement a moratorium on principal for five to 10 years, which would have given the government \$5.8 billion to \$11 billion in cash flow.

## Final Word

As an advocate for the reduction in size of our government and its budget, as well as the elimination of any government involvement in activities the private sector can perform better, we support the widespread utilization of

5 million		Total Debt Service										
		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	
Guaranteed	GO	1,066	1,090	1,118	991	999	999	999	999	999	999	
	PBA	249	249	249	272	273	258	254	253	236	241	
Major Holdings												
	COFINA	709	738	768	786	816	861	911	962	1,006	1,052	
	GOB	428	983	525	503	196	97	575	21	261	130	
	POB	167	167	167	217	234	239	174	176	181	187	
	PFC	86	86	86	86	86	86	86	86	85	85	
Others												
	PRIFA	127	127	126	126	130	151	125	130	127	267	
	HITA	355	291	317	362	340	275	254	280	347	300	
	UPRI	48	48	48	48	48	48	48	48	36	36	
	PRCIDA	30	30	30	30	30	30	30	30	30	30	
	PRICDO	18	18	18	16	18	18	18	18	18	18	
		Total DS	3,283	3,827	3,452	3,437	3,170	3,062	3,474	3,003	3,326	3,345
		Armt Available	818	404	567	722	1,059	903	857	1,013	722	808
		Short Fall	-2,465	-3,423	-2,885	-2,715	-2,111	-2,159	-2,617	-1,990	-2,604	-2,537

2024 Actual

3,338

7,851

<sup>1</sup> From Government of Puerto Rico Fiscal Plan submitted to Fiscal Control Board on March 13, 2017.

Public-Private Partnerships to monetize noncore businesses or enhance agencies' operations. The government must cut expenses and reduce its size and focus while meeting the Fiscal Plan. However, what is disconcerting is the probability that the more than 60,000 local bondholders may face haircuts on their bonds of more than 75%, which is a destruction of wealth of significant proportions. Puerto Rico has a very long road ahead.

## About Birling Capital Advisors LLC

Birling Capital is corporate advisory & consulting firm that **offers broad corporate finance & advisory services** focused on the needs of institutional, government, corporate, middle-market companies, family corporations and their owners, which are our focus markets.

*Our firm combines our senior leaders' more than two decades of advisory, consulting and transactional experience in corporate, healthcare, retail, education, insurance, P3's, banking and government markets with industry-focused financial operations and strategy professionals, enabling us to effectively advise our clients through their most critical corporate finance transactions.*

Prior to founding Birling Capital, our firm's principal worked for over twenty-five years in corporate, consumer, investment banking and government areas developing a unique set of skills to suit our focus markets. Sharing a deep rooted passion for providing quality advice to our clients that will help them to build enduring businesses and to accomplish their most critical strategic objectives.

**Francisco Rodriguez-Castro, President & CEO**

Mr. Rodriguez-Castro is Managing Partner of Birling Capital since its creation and manages all aspects of its practice. Mr. Rodriguez-Castro with over 25 years of experience has been a key executive in government, global, multinational and public companies as well as a key corporate advisor to multiple entities in a diverse array of market segments. He has participated in structuring over \$10 billion in Municipal Finance, Corporate, Commercial, Asset Based, AFICA and Mergers and Acquisitions transactions.

Mr. Rodríguez Castro has been Managing Director at UBS, President & CEO of the Economic Development Bank and held senior lending positions in the corporate banking sector. He is also a key leader in promoting the private sectors participation in the formulation of public policy of the country supporting the governments in its efforts to achieve and maintain sustained economic development for Puerto Rico. In addition to his management roles he was the founder of the Private Sector Coalition a not for profit association