



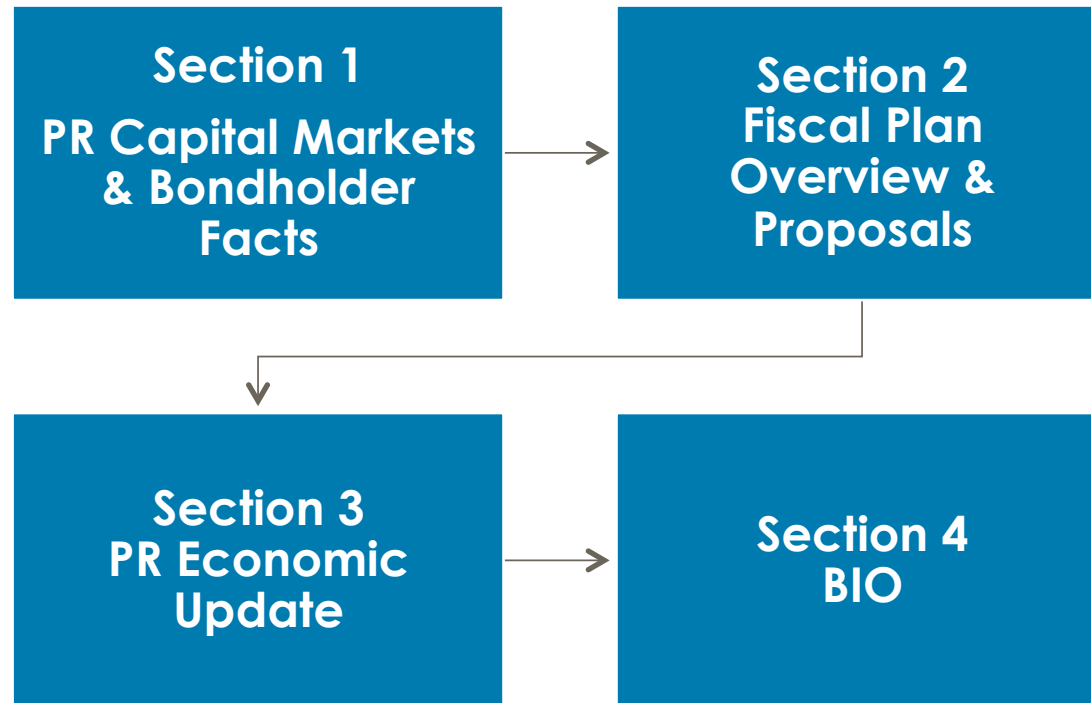
# **BIRLING**

CAPITAL ADVISORS LLC

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



# INDEX





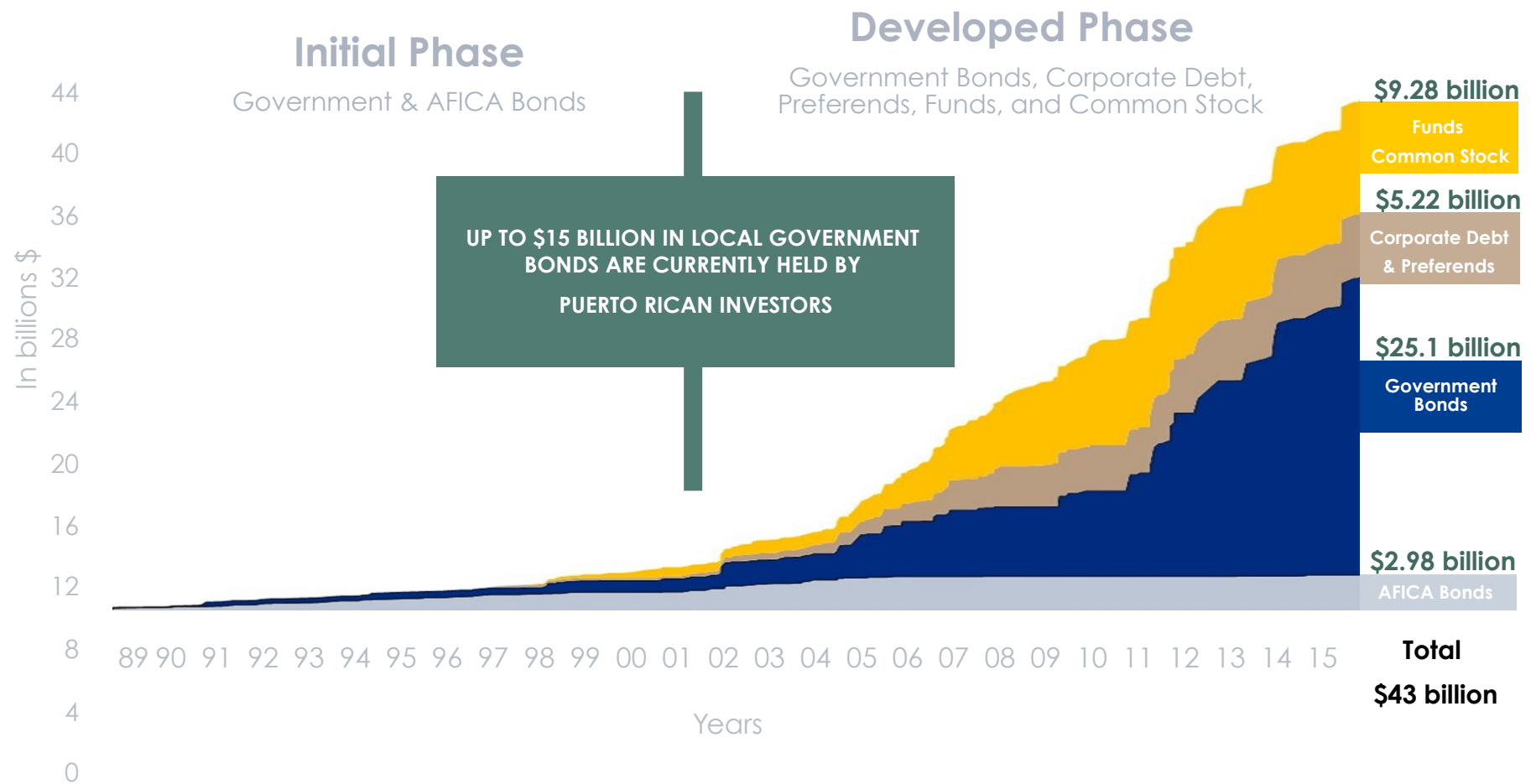
## Section 1

# Puerto Rico Capital Markets & Local Bondholder Facts



# Puerto Rico Capital Market Evolution

Since 1996 Local Puerto Rico Investors have invested over **\$31 Billion** in PR Bonds



# Puerto Rico Debt Issuers

Outstanding Principal Amount as of May 2016

General Obligations	\$12,470,402,455.80	19%
Cofina Subordinates	\$8,939,266,941.05	13%
GDB Loan Portfolio Agency & Muni	\$8,277,193,980.00	12%
Puerto Rico Electric Power Authority	\$8,107,995,000.00	12%
Cofina Senior	\$6,273,253,674.75	9%
Puerto Rico Highway	\$4,228,661,679.75	6%
Puerto Rico Building Authority	\$4,062,138,666.60	6%
Puerto Rico Aqueduct and Sewer Authority	\$3,603,014,456.00	5%
Government Development Bank	\$3,255,922,000.00	5%
Puerto Rico Pension Obligation Bonds	\$2,947,648,342.65	4%
Puerto Rico Infrastructure	\$1,847,922,916.15	3%
Puerto Rico Finance Coporation	\$1,054,455,000.00	2%
Children Trust	\$871,975,000.00	1%
University of Puerto Rico	\$518,245,000.00	1%
Convention Center	\$397,740,000.00	1%
Puerto Rico Industrial Development Company	\$162,625,159.20	0%

□ Approximately 22% of the total debt of Puerto Rico is in local hands.

□ Local bondholders hold a stake that is comparable to that held by the Hedge Funds.

□ The debt is payable over a period of more than 30 years

In addition, according to 6-30-2014 audit, Pension liability totals **\$33 Billion**

# Background of Local Bondholders

- It is estimated that local individual bondholders total 60,000. Including their families, brings the total persons affected to over 200,000 residents.
- Local Bondholders includes a broad range of people including government employees, retired people, private sector professionals, small and medium businesses, corporations and some wealthy families.
- Most depend on the interest payments as their main source of income.
- All agree a Fiscal Oversight Board is crucial on a temporary basis to assure PR puts its fiscal and economic situation in order
- All aspire to receive full interest on their debt holdings continue to be paid under the circumstances

# Current Bond Holdings of PR Residents

- PR residents generally acquired bonds that did not qualify for federal tax exemption under Sec 103 of the IRC
- The bonds were sold in the PR capital market at yields that were lower than the Commonwealth would have had to pay in the US taxable market, thus benefitting the PR government by about 2% on average
- Local bondholders own bonds from almost every PR government issuer
- Our information points that these are most widely held holdings of PR residents, in order of assets invested are:

I  
Cofina  
Sub's

II  
GDB  
Notes

III  
POBs

IV  
PFC

V  
GO

VI  
Cofina  
Senior

VII  
Prepa

VIII  
Various  
Others

# Current Bond Holdings of PR Residents

- Residents of PR currently hold about \$15 Billion of the outstanding public debt
- In 2013 PR government bond holdings were about \$24B, an estimated 2/3rds of the total \$35B brokerage assets in PR at that time
- This \$9 Billion drop in holdings is due to falling bond prices which have put holders under pressure to sell to contain losses and/or reduce leverage
- Annual debt service payable to PR residents is estimated at over \$1.2B
- Interest payments to PR residents alone are estimated to be \$700-800 Million

**This represents more than 1% of GNP**



# PR Resident Bondholders are Different

- The government had said that all parties must share in the pain of a restructuring (June 29, 2015 Governor Garcia Padilla aid: “it is time to for bondholders to share our pain”)
- Local bondholders need to be protected for contributing their savings to finance the government.
- Clearly everyone believed in the ability, good faith and intent of the government to repay its debt
- In this regard, and in contrast to all non-resident bondholders, local bondholders invested nearly 100% of their savings in PR bonds, thus facing a much more severe impact in a restructuring.
- Ultimately, the tax revenues that will keep the PR government operating to provide essential services and provide the funds to repay any debts in the future, including our own bonds, will come out of our pockets, not those of non-residents.

# A Decade of Lost Wealth in Puerto Rico

- It is estimated that PR residents incurred total capital losses of \$60B from 2005-2012
  - 2005 bank stock crisis
  - 2008 real estate crisis (along with US market debacle) \$27B (CNE)
  - 2010 bank stock crisis (3 publicly held banks were liquidated by FDIC) \$11B (CNE)
- In 2013, total brokerage assets in PR were \$35B of which an estimated 2/3rds was in PR Government bonds
- Total brokerage assets have fallen to \$25B since 2013
- Residents of Puerto Rico currently hold about \$15 Billion of the public debt
- Based on government proposals, which offer recovery of 56%, residents could face additional losses of \$6-7B, almost half the \$15B held.

## Section 2

# Fiscal Plan Overview & Proposals



# Comparison of Government Proposals

The April 11, 2016 Puerto Rico Counter Proposal Offered the Following Haircuts

Based on the new proposal, including both the Base Bond and Capital Appreciation Bond and assuming all Puerto Rican residents elect the Local Option, the following are the average recovery rates across all bonds of selected issuers (assuming a 5% yield):

Then the government offered for GO holders was 83.5%, Cofina Sr 80% and Cofina Sub 60% more

- ❑ GO and Commonwealth-Guaranteed – 74%
- ❑ COFINA – 57%
- ❑ GDB – 36%
- ❑ HTA – 56%
- ❑ Others – 51%

# Comparison of Government Proposals

The March 13, 2017 Puerto Rico Fiscal Plan Proposal Offers the following:

**\$800 million maximum  
debt service payments  
to all issuers**

The legislature is working on a Tax Credit to mitigate losses of restructured debt and would be deductible in 5 years at 20% per year for 5 additional years

- 
- ☐ Depending if we use the current \$3 Billion or \$4 Billion debt service level in the current scenario of hair cuts would range between 74% to 80%

# Big Impact to all Bondholders



The Puerto Rico Fiscal Oversight and Management Board members have said publicly:

**“No quede la menor duda, no se equivoquen, en este plan fiscal hay unos recortes importantísimos de la deuda que están implícitos, que habrá que negociar liderado por el gobierno de aquí en adelante, pero sujeto a nuestra aprobación y eventualmente, posiblemente, sujeto a confirmación por los tribunales”**

**JOSÉ R. GONZÁLEZ**  
miembro de la Junta  
de Supervisión Fiscal

What the fiscal plan says is you have to restructure the debt in a very meaningful way. Either agreements are reached consensually in favor of Cofina [Spanish acronym for Sales Tax Financing Corp.] and GOs [general obligation bonds] or a legal case continues. That's not a board question; those are the facts. The board's emphasis now is on reaching consensual agreements that restructure the debt at a level that is sustainable for Puerto Rico,” FOMB Member Ana Matosantos said to Caribbean Business

Board Executive Director Ramón Ruiz Comas said the Oversight Board wanted to implement additional “safeguards to ensure sufficient liquidity and budgetary savings,” designed to generate \$35 to \$40 million in monthly savings, including the elimination of Christmas bonus payments to public employees, and a furlough program to begin July 1<sup>st</sup>—the furlough would eliminate four work days per month for most personnel working in the executive branch, and two work days per month for teachers and other front-line personnel—the furlough would exempt law enforcement personnel.

# Debt Service Coverage is Grossly Deficient

The modified Fiscal Plan, certified on March 13, provides for debt service payments which fall short of the amount required by an average of \$2,551M during the next ten years

		Total Debt Service										
\$ million		2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	
<u>Guaranteed</u>	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	
<u>Major Holdings</u>	COFINA	709	738	768	786	816	861	911	962	1,006	1,052	
	GDB	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	
<u>Others</u>	PRIFA	127	127	126	126	130	151	125	130	127	267	
	HTA	355	291	317	362	340	275	254	280	347	300	
	UPR	48	48	48	48	48	48	48	48	36	36	
	PRCCDA	30	30	30	30	30	30	30	30	30	30	
	PRIDCO	18	18	18	16	18	18	18	18	18	18	
												10 Y Avg
Total DS		3,283	3,827	3,452	3,437	3,170	3,062	3,474	3,003	3,326	3,345	3,338
Amt Available		818	404	567	722	1,059	903	857	1,013	722	808	787
Short Fall		-2,465	-3,423	-2,885	-2,715	-2,111	-2,159	-2,617	-1,990	-2,604	-2,537	-2,551

<sup>1</sup> From Government of Puerto Rico Fiscal Plan submitted to Fiscal Control Board on March 13, 217

# Time Value of Money if Payment Deferred

## 0 - 10 Yrs Totals

	Principal		Time Value of Money	
GO	\$	3,846,177,456	\$	4,849,134,933
COF SR	\$	243,216,635	\$	349,969,500
COF SUB	\$	695,742,468	\$	944,451,296
PBA	\$	899,730,000	\$	1,149,064,168
POB	\$	240,700,000	\$	331,946,444
GDB	\$	2,881,432,000	\$	3,578,535,735
PFC	\$	311,780,000	\$	406,553,582
PRIFA	\$	575,595,000	\$	743,776,643
HTA	\$	1,598,813,856	\$	2,052,980,133
PRIDCO	\$	112,845,159	\$	146,337,154
	\$	-	\$	-
Total	\$	11,406,032,574	\$	14,552,749,588



# How to Measure Success & How to recognize it

**On Governor Rossello's Inauguration Day, he inherited the following Puerto Rico benchmarks:**

- **Price of gas: 64.9 cents per liter**
- **Puerto Rico Stock Index: 2,551.91**
- **Unemployment rate: 11%**
- **GNP: -2.2%**
- **Labor-force participation rate: 39.8%**
- **Home ownership rate: 74%**
- **Median household income: \$18,626 a year**
- **Puerto Rico debt: \$69 Billion**
- **Credit Ratings: S&P (D), Moody's (Caa3) and Fitch (D)**
- **Access to markets: None**



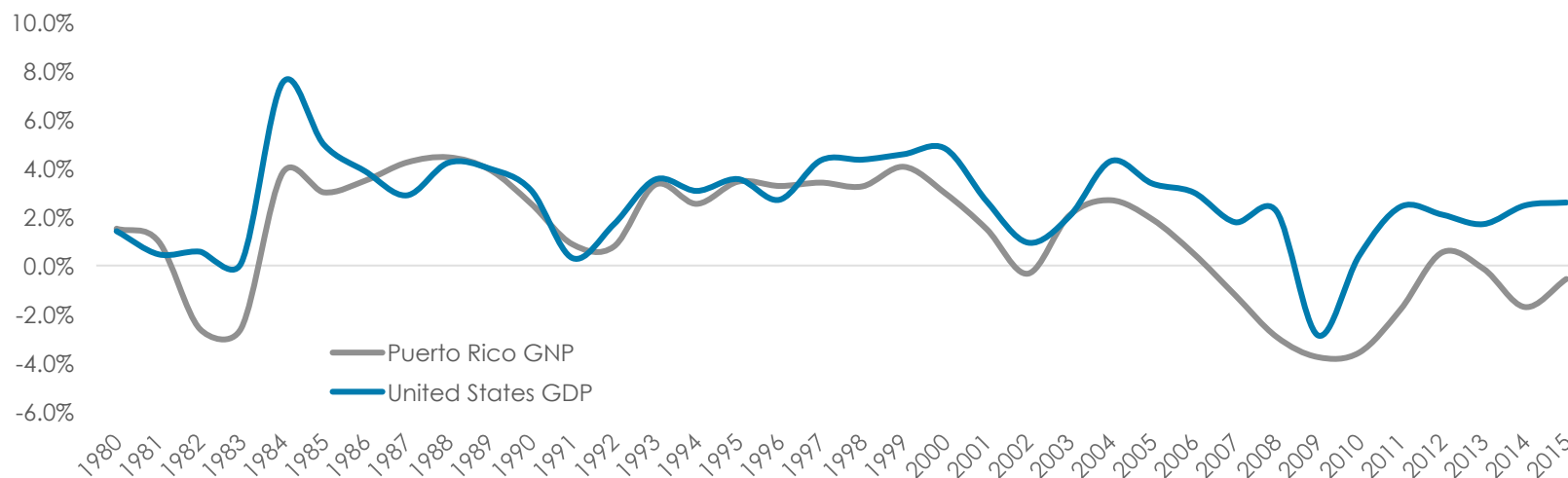
## Section 4

# Puerto Rico Economic Update



# GNP & GDP: Puerto Rico & U.S.

- The local economy has experienced secular deceleration in economic growth since the mid 1970s.
- Up to the late 1990s, the local economy's cycle was significantly correlated with the U.S. business cycle.
- Since then, their growth paths have diverged.
- The underlying reasons leading to the U.S. recession in 2008 are fundamentally different from those that led to the start of the P.R recession in 2006.

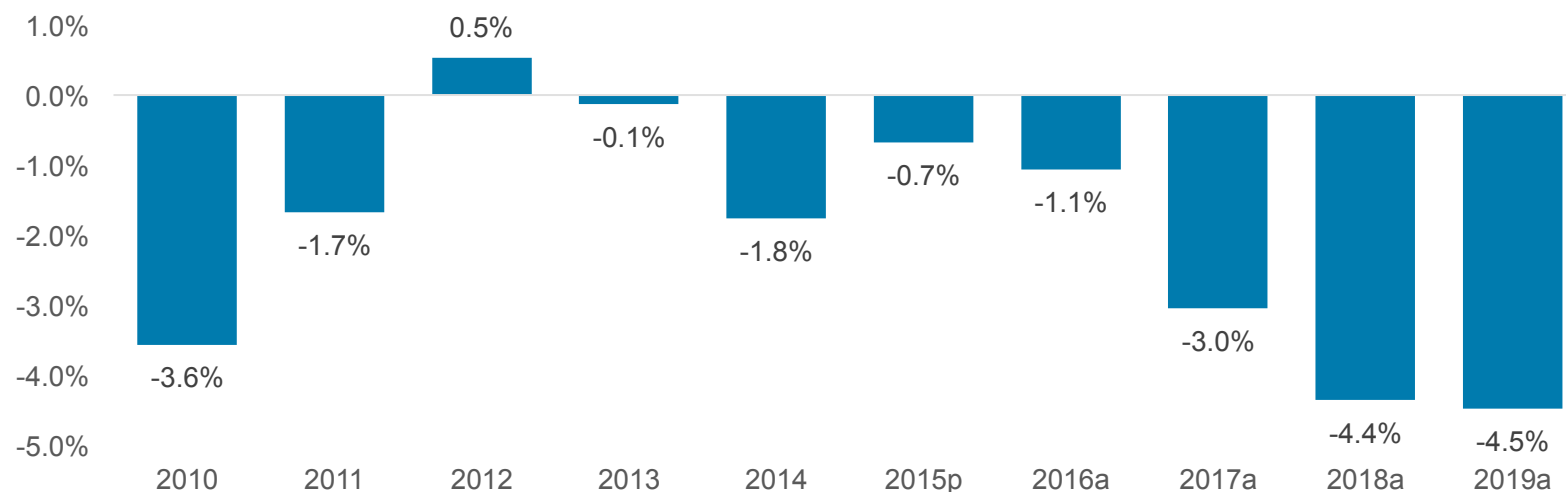


Source: Puerto Rico Planning Board (2016); U.S. BEA; Aspen Publishers (2016), *Blue Chip Economic Indicators*; Estudios Técnicos, Inc.

# GNP Trends

- The Government's role is no longer that of stimulating the economy. Its recent actions lead the economy in the opposite direction. The International Monetary Fund (IMF) projects contractions in the economy until 2021.

**Annual Real GNP Growth for PR and its Forecast**



Sources: PR Planning Board (2017). Statistical Appendix 2016. Forecasts by Estudios Técnicos, Inc. (Revised March 13, 2017). p = preliminary; a = subject to revisions

# Real GNP Growth Components

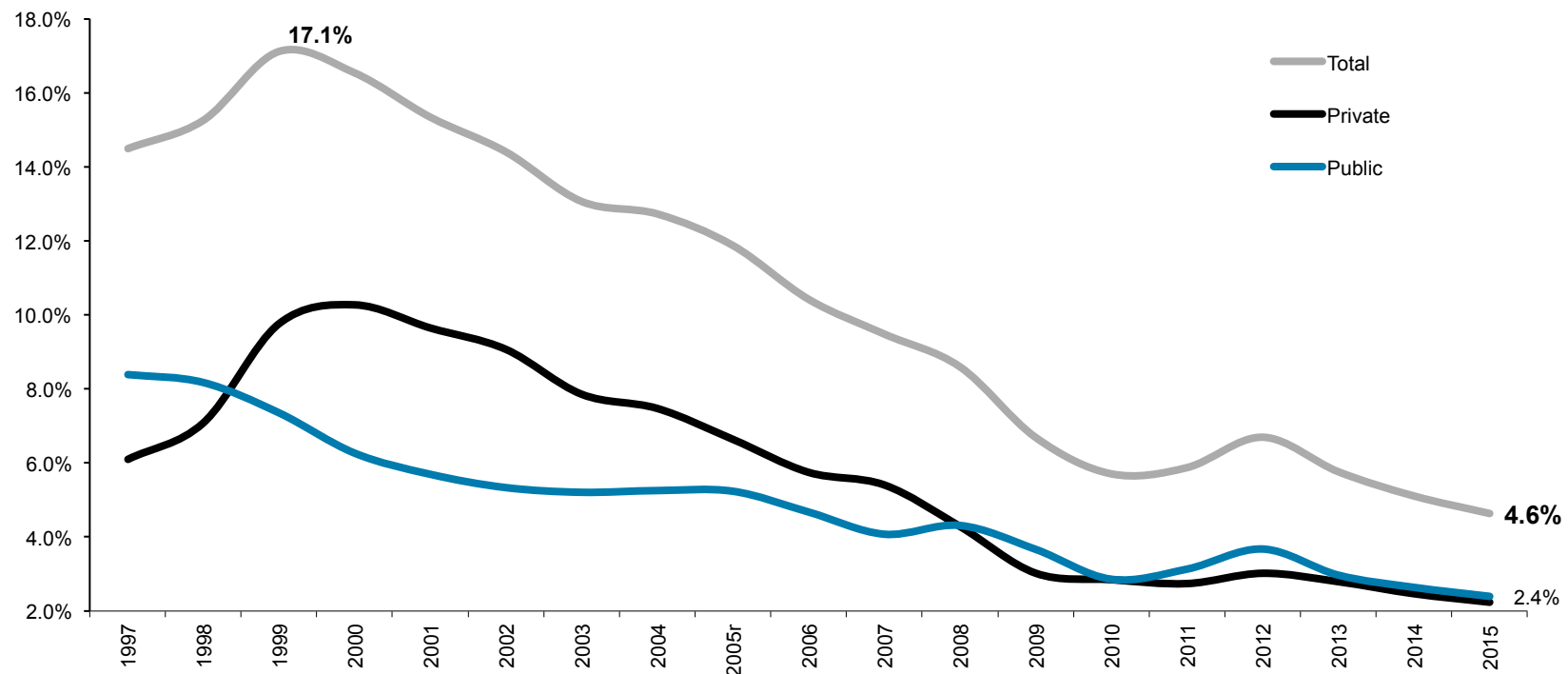
**Real GNP: Historical and Forecasted Growth Rates by Component**  
*Fiscal Years -- 2010 - 2019*

Components of GNP	Historical Growth Rates							Forecasted Growth Rates		
	2010	2011	2012	2013	2014	2015p	2016a	2017a	2018a	2019a
<b>Real GNP</b>	<b>-3.6%</b>	<b>-1.7%</b>	<b>0.5%</b>	<b>-0.1%</b>	<b>-1.8%</b>	<b>-0.7%</b>	<b>-1.1%</b>	<b>-3.0%</b>	<b>-4.4%</b>	<b>-4.5%</b>
Personal Consumption Expenditures	1.4%	1.5%	2.4%	1.7%	-3.1%	-2.5%	-1.7%	-2.2%	-4.0%	-4.2%
Public Spending	-3.4%	-2.2%	1.3%	-2.1%	6.8%	-8.9%	-2.0%	-6.0%	-9.5%	-11.0%
Gross Domestic Investment	-7.8%	8.1%	5.8%	-8.9%	-4.8%	-0.4%	-4.3%	-3.7%	-4.1%	-4.4%
Construction Investment	-14.1%	2.5%	15.6%	-14.8%	-16.7%	-9.5%	-9.2%	-7.0%	-8.4%	-4.8%
Private	-5.1%	-4.1%	11.7%	-8.8%	-6.3%	0.7%	0.3%	-5.0%	-8.4%	-8.0%
Public	-21.5%	9.2%	19.0%	-19.8%	-26.4%	-19.0%	-25.9%	-10.0%	-10.5%	-15.0%
Exports	-3.9%	-0.9%	-6.6%	-2.0%	-2.1%	4.1%	3.2%	1.8%	1.5%	1.4%
Imports	-0.5%	2.1%	-0.9%	-0.9%	-2.2%	-1.2%	0.4%	-0.5%	-1.8%	-2.0%

Sources: PR Planning Board (2017). *Statistical Appendix 2016*. Forecasts by Estudios Técnicos, Inc. (Revised January 19, 2017). p = preliminary;  
 a = subject to revisions.

# Investment in construction / GNP (Current dollars)

A major problem is the decrease in investment.



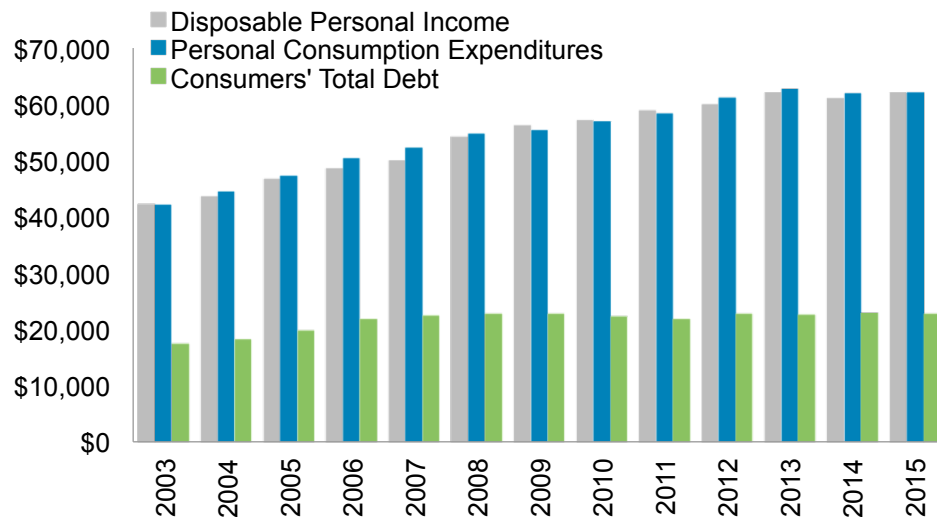
Source: Puerto Rico Planning Board. Estudios Técnicos Inc.

# Level and Growth in Personal Income, Personal Consumption Expenditure and Consumer Debt

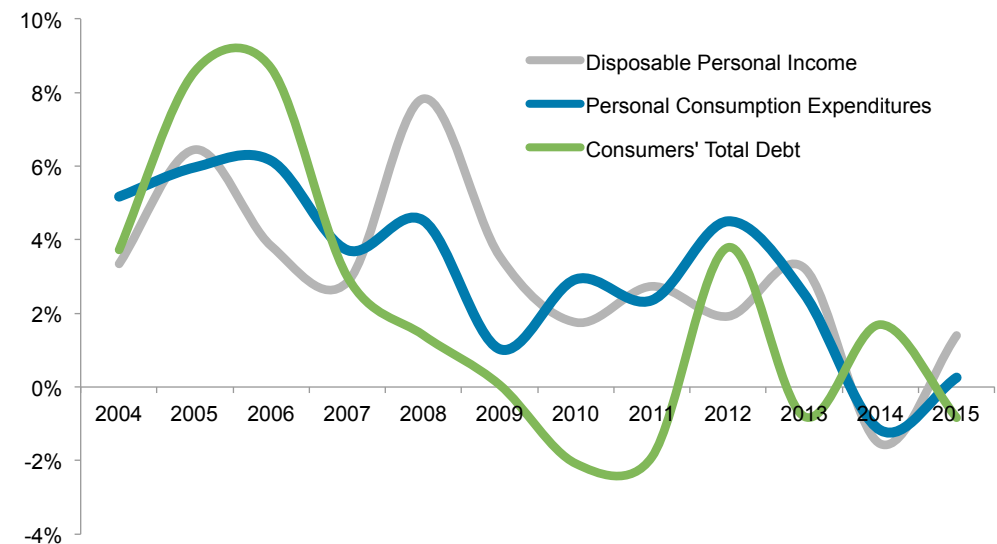
(current dollars)

- Consumers have reacted as expected since the onset of the economic recessions with worsening expectations and increasing their debt repayment.

In Millions (\$)



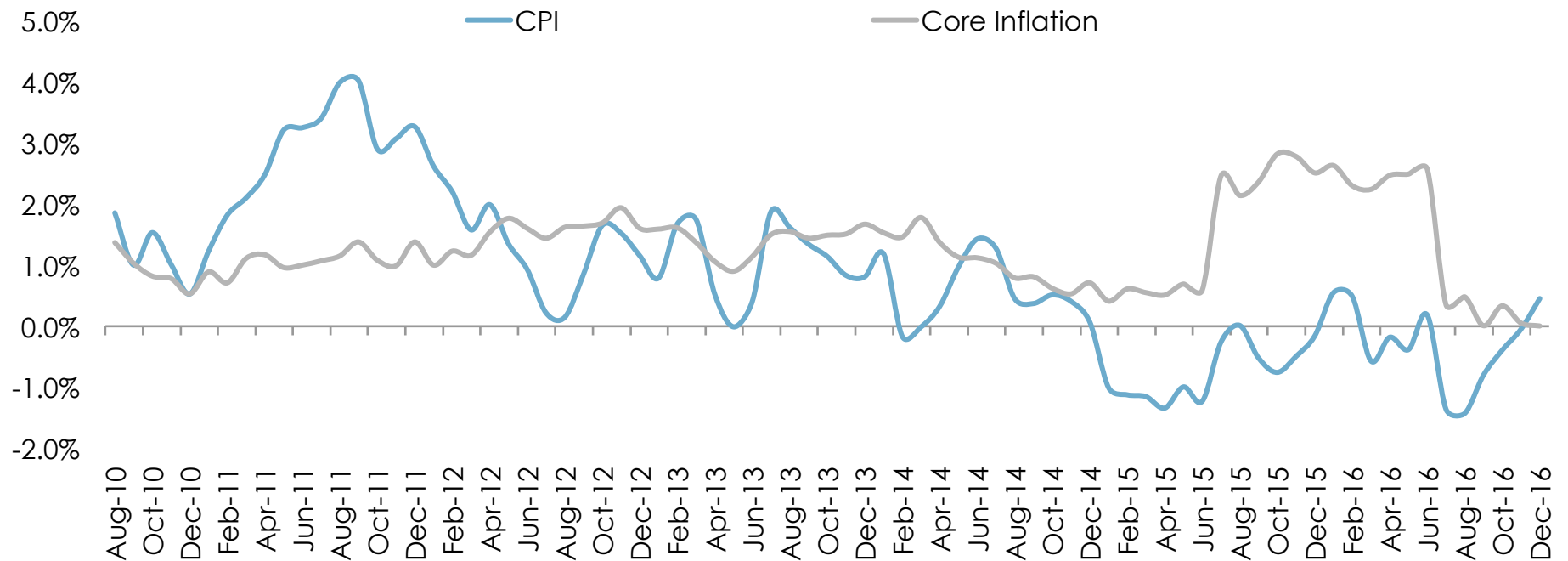
Source: Puerto Rico Planning Board. Estudios Técnicos Inc.



Source: Puerto Rico Planning Board. Estudios Técnicos inc.

# Inflation

## General and Core Inflation (December 2006 = 100)



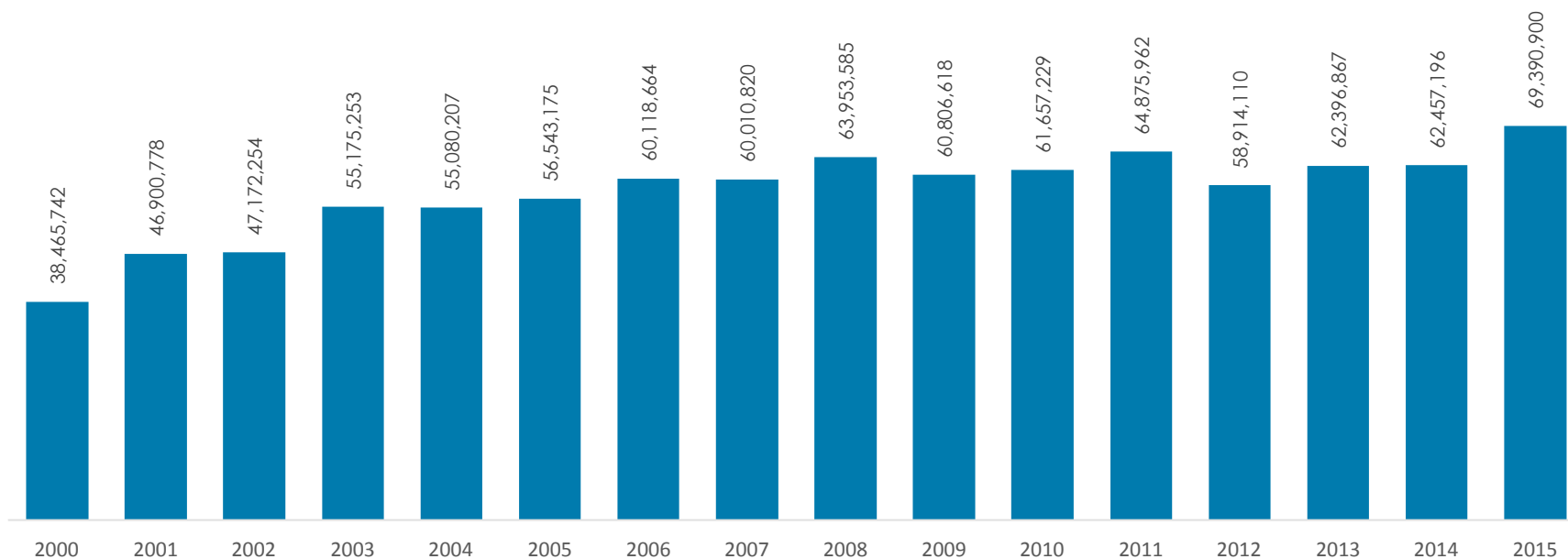
Sources: P.R. Department of Labor; Estudios Técnicos, Inc.



# Total exports

- A small, open economy such as ours must necessarily stimulate exports if it wants to spur growth.

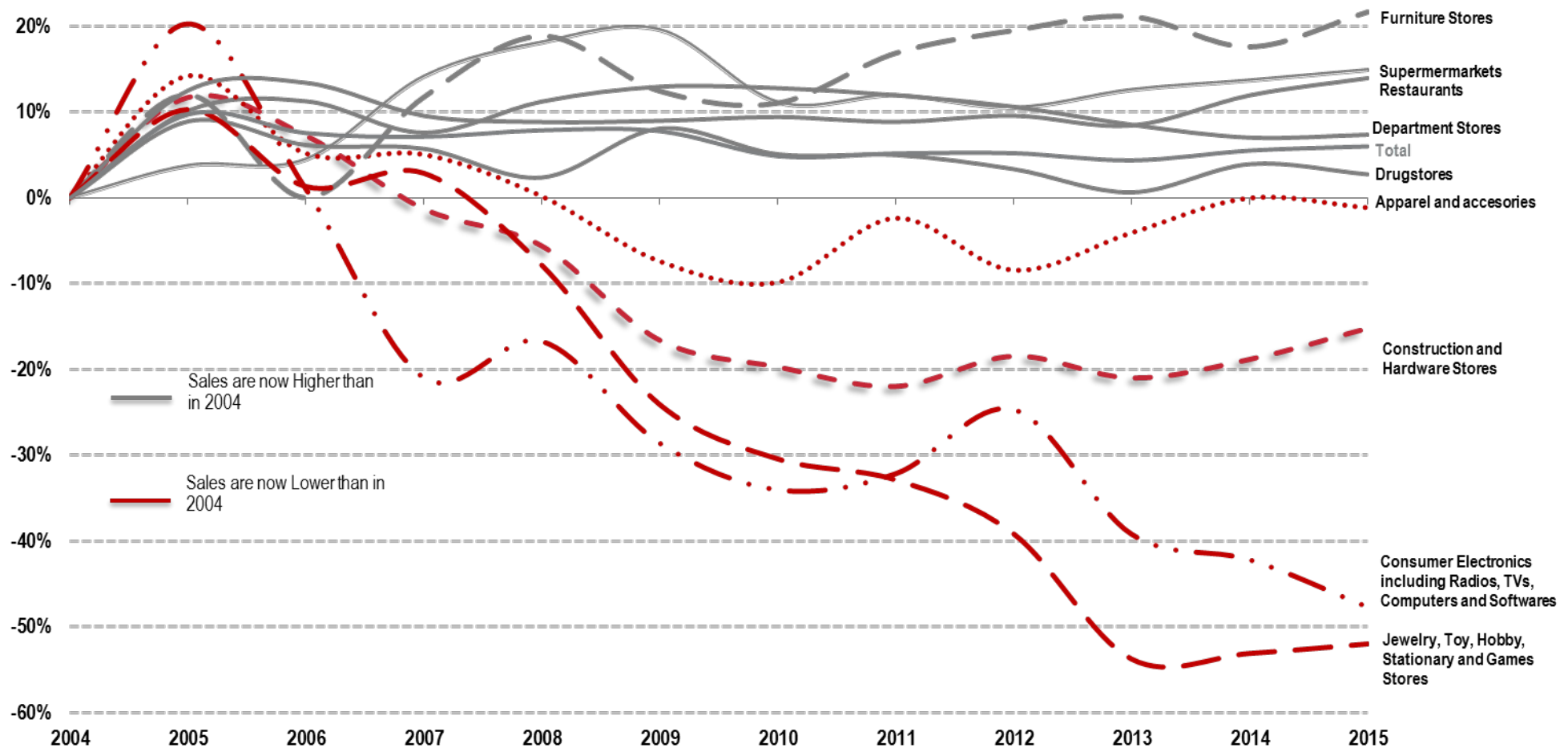
**Total exports**  
(thousand \$)



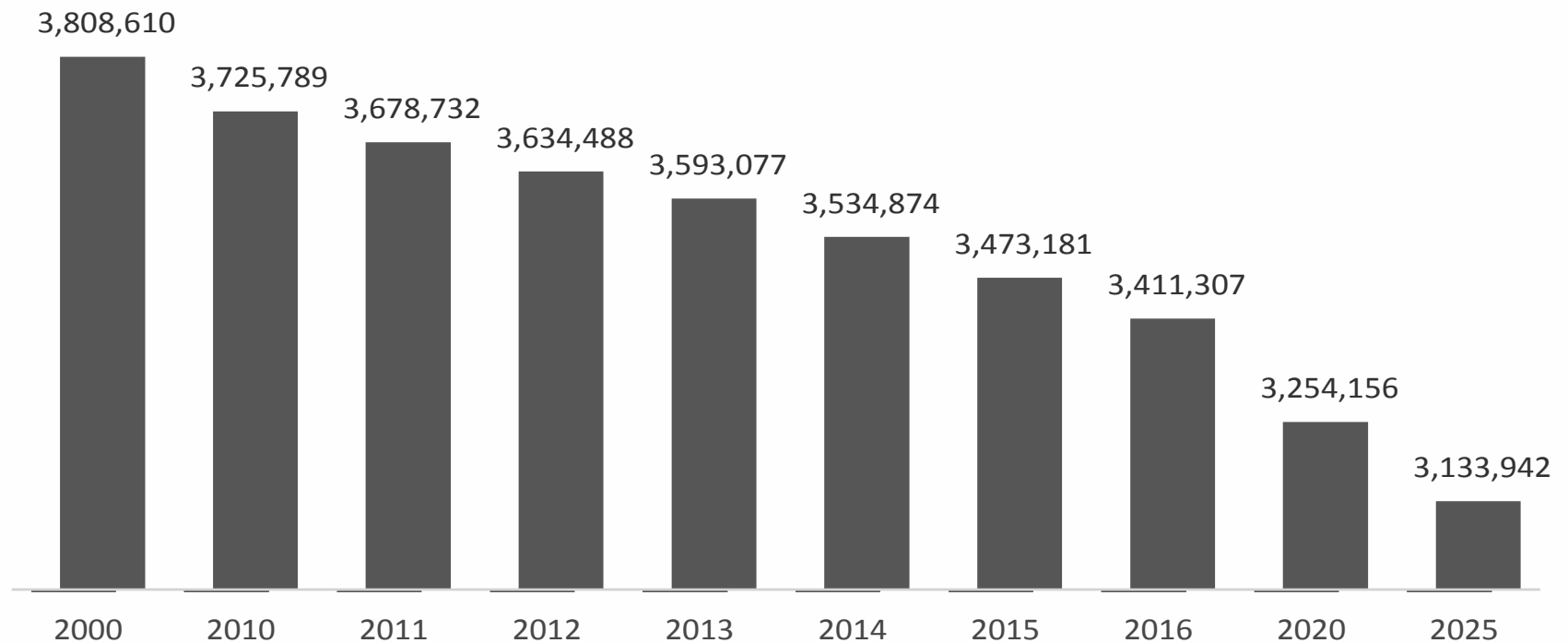
Source: Puerto Rico Planning Board. Estudios Técnicos, Inc.

# The Transformation in Retail Sales

- A major shift to large retail units is transforming the retail sector at the same time total sales are falling.



# Population



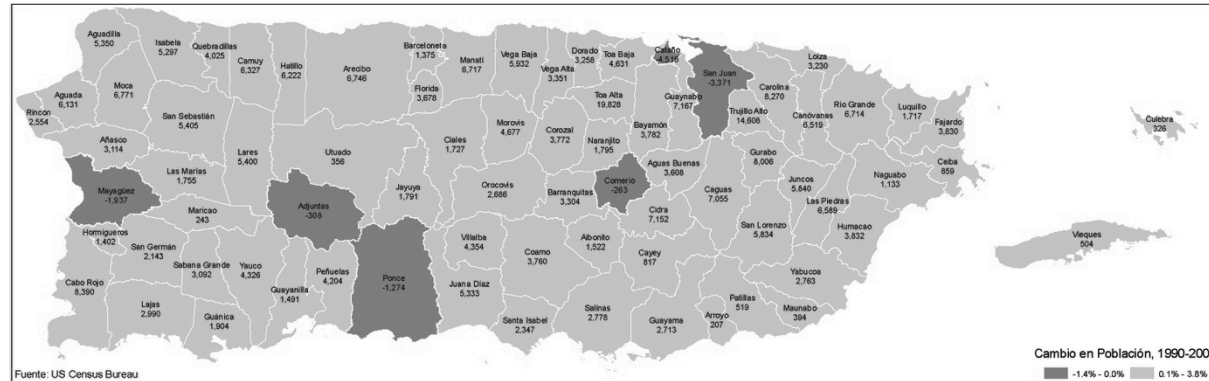
**Fuente:** Negociado del Censo, Estimados por Estudios Técnicos, Inc.

Source: US Census Bureau. Estudios Técnicos, Inc.

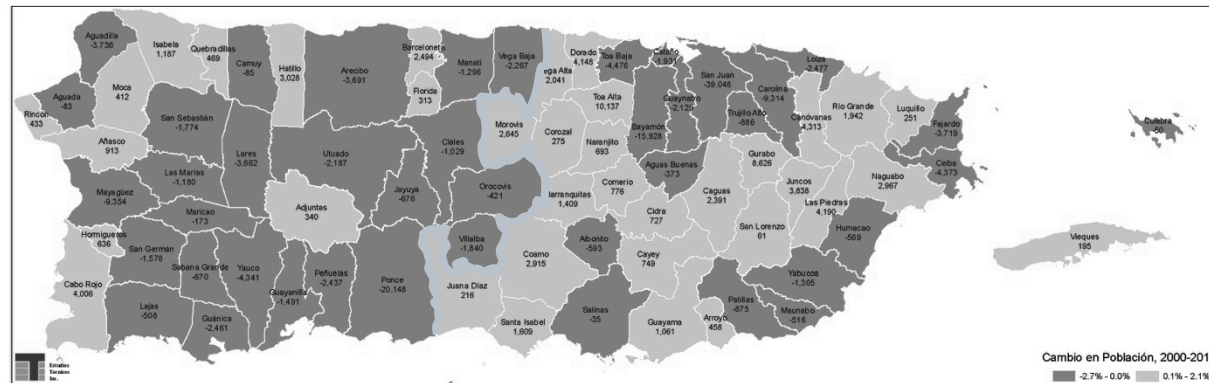
# Population Change (Census 2010)



**Change in  
population,  
1990-2000**



**Change in  
population,  
2000-2010**

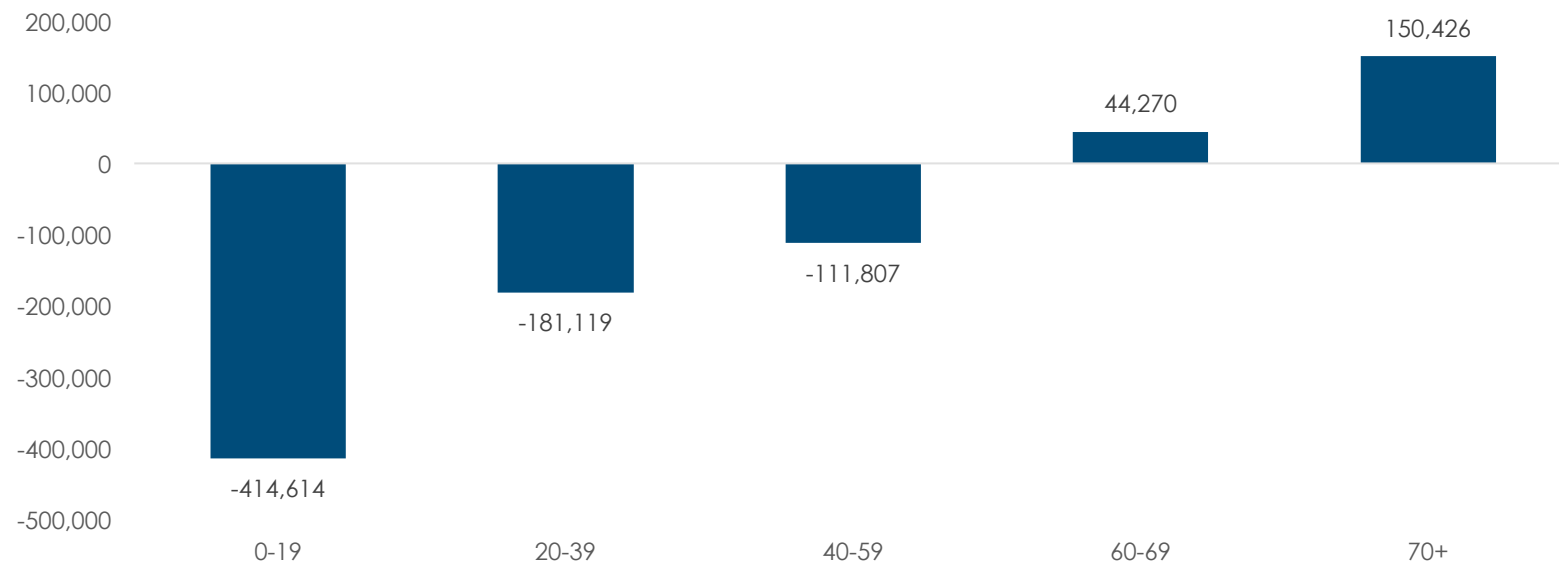


**Change in  
population,  
2010-2013**



# Population

Change in population by cohort 2010-2025

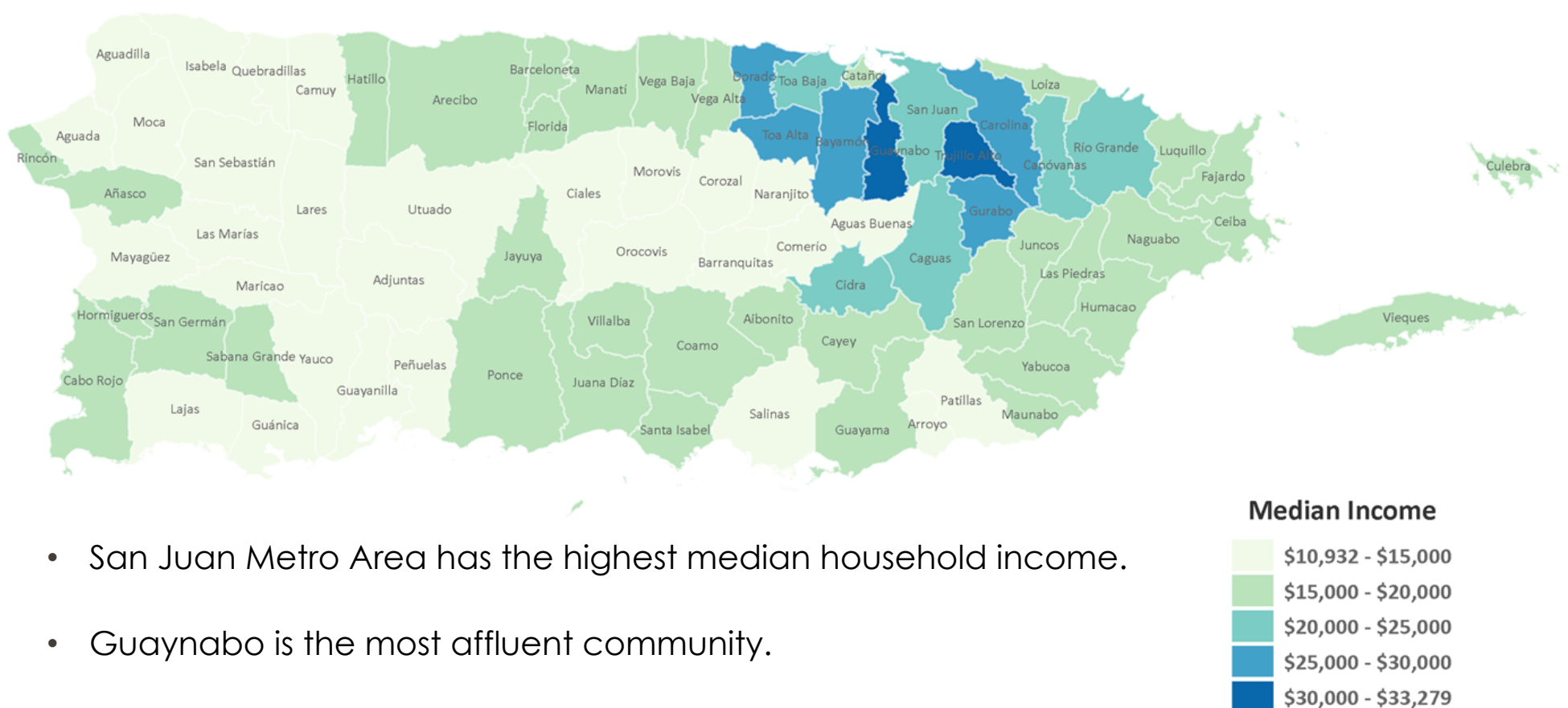


Source: U.S. Census Bureau. Estudios Técnicos, Inc.

It is expected that the total population in **2025** will be 3.2 million

# Median Household Income, 2010

Highest incomes in suburban municipalities around San Juan



Source: Estudios Técnicos, Inc.



## Section 5

# Firm Overview & BIO



## FIRM OVERVIEW

**Birling Capital** is a boutique **corporate advisory & consulting firm** that offers broad corporate finance & advisory services to institutional, government, corporate, middle-market companies, family corporations and their owners, in identifying and resolving corporate finance related issues as part of a holistic approach both assets and liabilities sides with integrated business, personal, family needs and objectives.

Over the past two decades, our firm's principals have advised on more than 150 transactions in the corporate, healthcare, retail, education, insurance, banking and government markets.

**Our value proposition has been implemented with three critical ingredients for success:**



- ❑ Unwavering Commitment to Client Service
- ❑ Unparalleled Degree of Professionalism and Senior-Level Attention
- ❑ Extraordinary Level of Industry Expertise



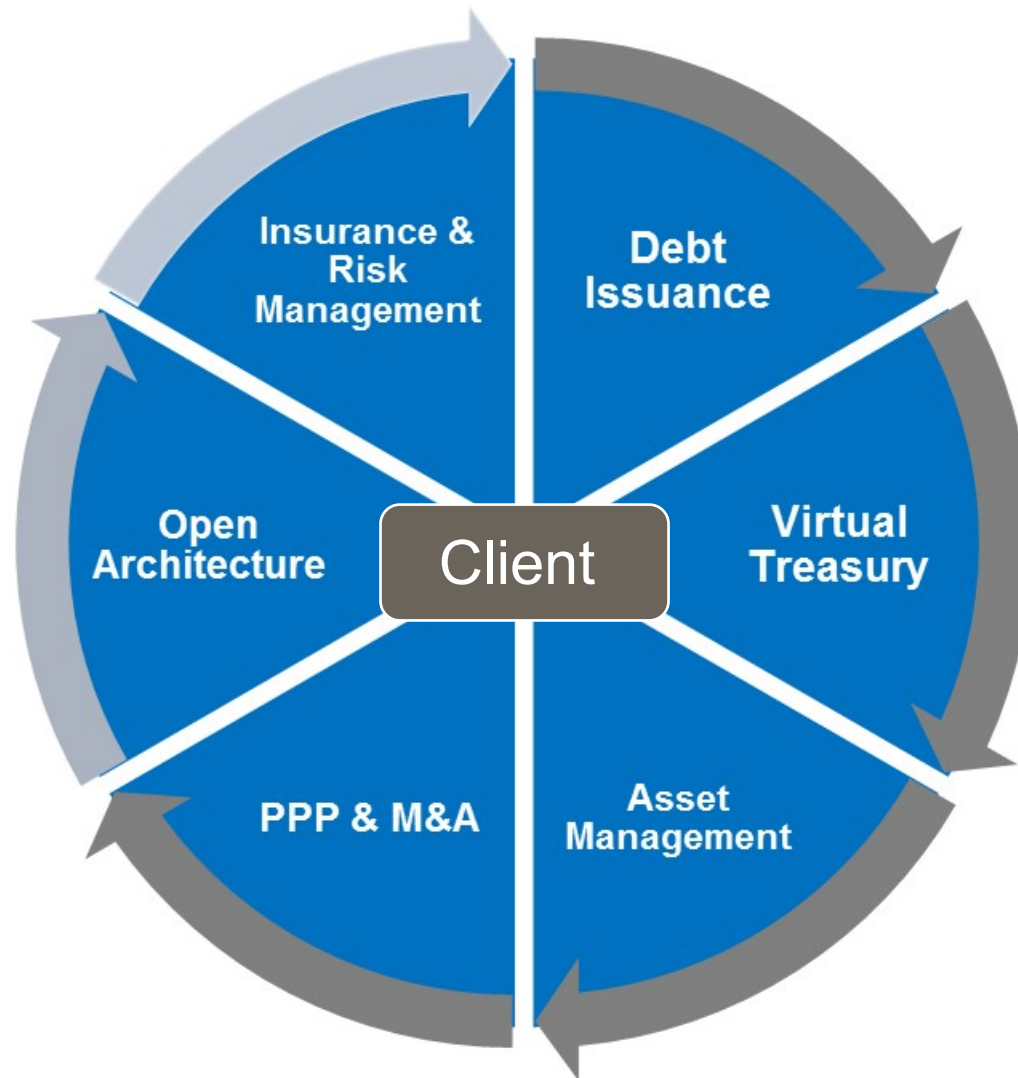
## Products & Services

# Corporate Financial Planning (CPF)

Birling offers its customers the service of corporate financial planning which consists of an objective and comprehensive report on the current financial situation and the development of strategies based on their goals and needs analysis. Taking into account from the income, financing needs, investment, economic development opportunities, public-private partnerships, evaluation of potential risks and other specific opportunities in each client.

Think and plan long term can be a challenge when there are immediate financial pressures and uncertain income forecasts. Given the worsening economic conditions and economic pressures, the costs are rising faster than inflation, aging infrastructure and increasing expectations about service levels. The process can be difficult, but necessary to achieve financial sustainability.

# Corporate Financial Planning (CFP)



## BIO

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

Mr. Rodriguez-Castro is President & CEO 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. As board member of the Puerto Rico Chamber of Commerce starting in 2006 he organized, founded and Chairs the Puerto Rico Conference a Macro economic investment conference.

# BIO

## Francisco Rodriguez-Castro, President & CEO

### *Among the awards he has received are:*

- Presidents Award Puerto Rico Chamber of Commerce 2010
- Caribbean Business Person of the Year 2009.
- Presidents Award for Outstanding Service 2009, Puerto Rico Products Association.
- Home Builders Achievement Award 2009
- Presidents Award for Outstanding Service 2008- Puerto Rico Chamber of Commerce
- El Vocero Newspaper Leaders Award 2008.
- Top Management Award 2006, SME Banker of the Year.
- Puerto Rico Chamber of Commerce Zenit Awards Banker of the Year 2006
- Banker of the year 2004 Puerto Rico Products Association.
- Zenit Award Public Service 2004 Puerto Rico Chamber of Commerce.
- Mercury Award Banker of the Year 2004, Centro Unido de Detallistas.

## BIO

### **Carlos A. Colón De Armas, PhD., Senior Managing Consultant**

Prior to occupying his current position, between 1999 and 2000, Dr. Colón De Armas was the Executive Vice President of the Government Development Bank for Puerto Rico (GDB). During the years 1993 to 1999, Dr. Colón De Armas served as the Deputy Executive Director of the Puerto Rico Highways and Transportation Authority (PRHTA).

Dr. Colón De Armas is also a Professor of Finance at the Graduate School of Business of the University of Puerto Rico's main campus at Río Piedras, where he teaches Corporate Finance, Financial Markets, Investments, and International Finance. From September 2013 until January 2015, he served as the Acting Dean of the School of Business Administration. Prior to that, in 2004, he served as Associate Dean for Academic Affairs of the School.

Dr. Colón De Armas is actively engaged in academic research and has authored several articles for academic journals. In addition, he was a member of the Editorial Board of *Forum Empresarial*, an academic business journal published out of the School of Business of the University of Puerto Rico at Río Piedras. Between August 2007 and June 2011, he presided the Board.

Outside of academia, Dr. Colón De Armas serves as a Financial, Economics, and Management Consultant, and is a licensed Real Estate Broker (Lic. #10213). He has provided professional services for clients in a variety of fields.

His opinion columns have appeared in *El Nuevo Día* and *El Vocero*, two of the newspapers with the largest circulations in Puerto Rico, and in *Caribbean Business*. In addition, he is an analyst and commentator on business and economic affairs for several media outlets, including radio stations and television news programs in and outside Puerto Rico.

## Senior Advisors

### **Gary S. Sugino, PE, Senior Consultant & Head of Restructuring, Energy & Pharma Practice**

Gary Sugino is an engineer with master's degrees from Bradley and New York University and over 30 years of experience in the military/civilian designing and managing multi-million dollar projects. Former, Captain in the Civil Engineer Corps, United States Navy with leadership experience in austere conditions of the Middle East managing over \$780M WIP projects in construction, renewable energy, generator farms and facilities on American military bases and engaged at the ministry level of foreign governments. Experienced in construction/management in the Balkans and Central America as well providing engineering design for the startup detention facility at Camp X-ray in Guantanamo Bay, Cuba. He provided contingency engineering support in both Korea and Japan. Formerly, the Principle Engineer with Abbott Laboratories designing production equipment and manufacturing lines in the pharmaceutical industry.

## Team members

### Dr. Anuj Mehrotra, Senior Consultant

Dr. Mehrotra is an engineer with a Ph.D. in operations research from the Georgia Institute of Technology. Dr. Mehrotra has been a visiting professor at various universities, including Carnegie Mellon, Georgia Tech and Virginia Polytechnic Institute. Dr. Mehrotra was also visiting scientist at IBM a leading computer and consulting services company. He is a consultant to Fortune 500 companies including Goodyear Tire and Rubber Company, Cheetah Software Systems, Ryder Dedicated Logistics, A. T. Kearney, Cargill, Exxon, Capital One and EDS.

### Joshua Gurwitz, Senior Consultant

Joshua is the founder and former CEO of Good Property, a real estate development, design, investment, and consulting firm. Since inception he has worked closely and partnered with high net worth individuals, private equity firms and various other real estate organizations on projects in cities including New York, Miami and London. His most recent venture is Diary Properties, a luxury hotel brand based in the U.S. Joshua began his career as an Interior Designer and has worked for acclaimed designers and architects such as Clodagh and Gensler. After working as a strategic planner for Gensler's hospitality group, he became Managing Director of First Service Colliers Consulting Group. In 2009, he founded Good Property. Joshua holds a degree in Interior Design from the New York School of Interior Design.

# Contact

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