

nabeducation
& community business

'Infrastructure and financing options'

2010 Australian Technology Network of Universities Conference

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Outline

- The Global Financial crisis ('GFC') and the Australian economy
- The impact of the GFC on Universities
- The infrastructure challenge
- University balance sheets and our view of risk
- Funding options – the state of the market
- The status of PPPs
- Student accommodation

The Global Financial crisis and the Australian economy

- The GFC – US / China / trade deficit, artificially low US domestic rates, unprecedented sub prime lending volumes, transmission to global financial system through securitised conduits, collapse of interbank lending and domestic bond markets.
- Globally most dramatic fall since WWII
- Australia escaped recession due to a number of factors:
 - Largest most rapid fiscal stimulus in recent history
 - Aggressive easing of monetary policy – 425 bps in 6 months
 - Secure and stable banking sector – 4 out of 7 AA rated banks
 - Property sector dynamics (under supply, population growth)
 - Spectacular adjustment in labour costs cushioned unemployment peak
- RBA will continue tightening – cash rates at least 5.50% by mid 2011

Impact of the Global Financial crisis on Universities

- Equity market collapse affected those institutions with sizeable investment portfolios – five of the Go8 Universities posted operating losses in 2008 as did four non Go8
- Funding options became much more limited – no real domestic bond issues and withdrawal of overseas banks
- Limited availability of funding for limited recourse financings including student accommodation
- The cost of debt funding has increased – wholesale cost plus increased risk margins
- Increased focus on ROE and capital has resulted in more careful lending decisions

University Infrastructure

The infrastructure challenge

- Catch up maintenance and development
- Capacity management as enrolment caps are removed
- Online versus physical delivery
- The Bradley reforms and low SES participation
- Differences in balance sheet structure and willingness to use debt to finance capital works
- Surplus operating cashflows insufficient to fund anywhere near the required infrastructure spend

University Assets – a potential classification

Core Assets

Related University Operations

Other Commercial Interests

Characteristics

- Vital component to university operation

- Complimentary to university operation

- Not directly related to university operation

Key Ownership Drivers

- Operational control
- Reputation Quality
- On balance sheet

- Management control
- Ownership flexibility
- On / off balance sheet

- Ownership flexibility
- Non recourse
- Off balance sheet

Examples

- Lecture theatres
- Faculty buildings
- Laboratories

- Student accommodation
- Parking facilities
- Recreational/Student facilities

- Collaborative Research
- Joint Ventures
- Partnerships

University financing options

On balance sheet debt

- Well understood – large existing exposures
- Exposure caps circa \$250m but potential syndicated market
- Price has changed, some evidence of capital rationing
- Greater flexibility in regard to structure and term

Debt capital markets

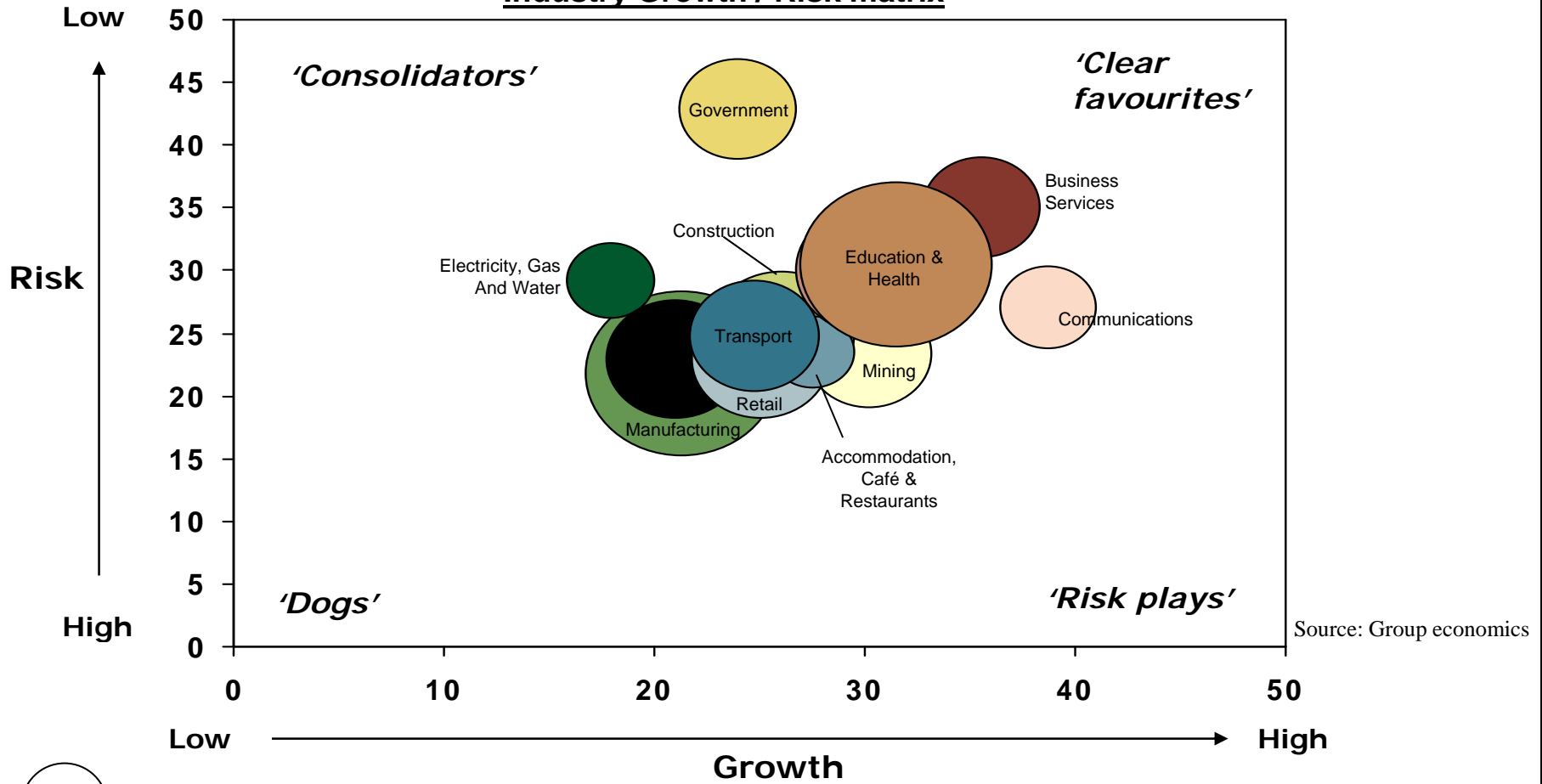
- Market has reopened
- Less restrictive covenants but reduced flexibility and shorter term
- Universities typical well regarded (AA) – perhaps a combined approach as part of a longer term program

PPPS – limited recourse finance

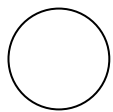
- Caught up in the scrutiny of property portfolios and withdrawal of foreign lenders
- Reduced availability (mezz debt), increased pricing and limits on underwriting volumes

Education, Health and Government are attractive industry segments

Industry Growth / Risk matrix



Source: Group economics



Industry Gross Product \$15B

Industry Gross Product - gross output of a business minus intermediate inputs or the value of goods and services after the deduction of the cost of goods and services used up in the process of production

University risk is stable and well regarded

Segment	Risk Rating 2007	Risk Rating 2008	Trend Since Last Review	Outlook Next 12 months	Outlook 3-5 years
Preschool	C+	C+	Stable	Positive	Positive
Child Care	C+	C	Negative	Negative	Stable
Schools - Government	B-	B	Stable	Stable	Positive
Schools - Private	C	B-	Positive	Stable	Stable
Boarding Schools	D	D	Negative	Stable	Stable
Special Schools	B-	B-	Stable	Stable	Stable
Higher Education	B-	B-	Stable	Stable	Positive
Technical & Further Education	C+	B-	Stable	Positive	Positive
Other Education	C+	C	Stable	Stable	Stable
Education	C-	B-	Stable	Stable	Positive

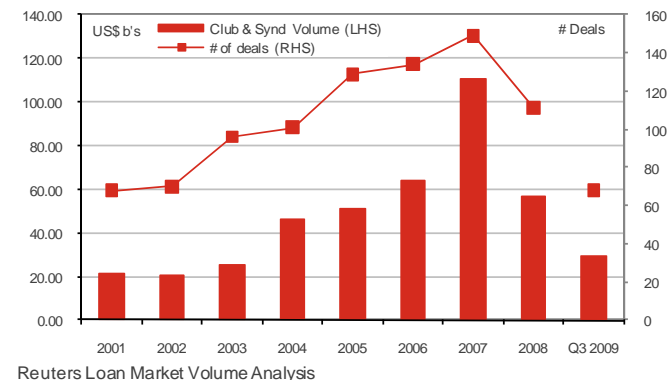
Australian Syndicated Loan Market Conditions

Market conditions in Australia are improving with volume of transactions being successfully completed increasing

Market Comment

- The volatility in global credit markets has impacted the Australian loan market with Banks:
 - being more cautious on risk appetite;
 - reducing lending and stopping underwriting;
 - significantly repricing credit risk;
- Banks continue to observe a cautious approach to risk;
- Syndicated loans in 2008 and early 2009 experienced difficulty in being fully subscribed and were flexed;
- Volume locally in the market is currently dominated by the major Australian commercial banks;
- Transactions providing “new money” are starting to re-emerge

Loan Market Volume - Australia



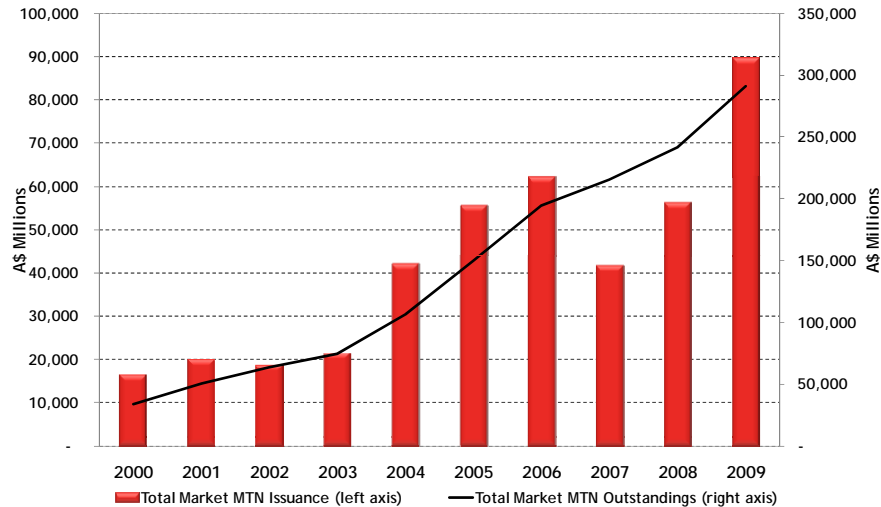
- **Notwithstanding more positive market sentiment, foreign lenders' constrained appetite for Australian transactions will continue to limit liquidity generally**

Market Update – Outlook

- Loan market sentiment is positive and improving with banks demonstrating greater interest and confidence in supporting transactions
- Banks higher average funding costs will continue to impact credit appetite and pricing given the structural shift in greater proportion of long term funding for most banks
- Asian banks are expected to continue supporting well rated Australian transactions, providing additional liquidity and volume
- Repricing of risk continues to be a theme with Banks requiring transparent facilities with direct access to assets where appropriate
- Terms and conditions are expected to remain tight with leverage expectations remaining moderate
- 3 year loan tenor is expected to remain most liquid, with 5 year funding expected to be tested as market conditions stabilise further
- Pricing is expected to remain high for lower rated borrowers for the immediate future:
 - higher average funding cost of banks continues
 - Basel II revisions require banks to hold additional capital for higher risk

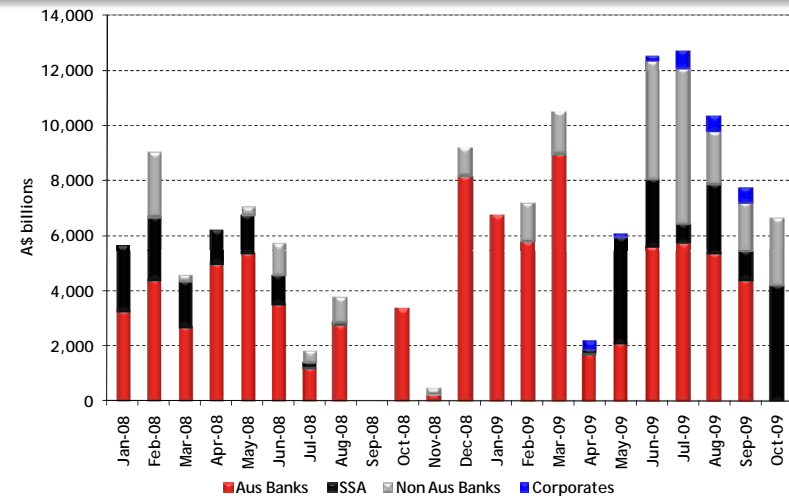
Market Dynamics - domestic bond issues

Annual Issuance



Source: NAB

Australian Corporate Bond Issuance Volumes by Month



Source: NAB

- Issuance initially dominated by the Australian majors especially in guaranteed format. Investor preference rapidly changing to non guaranteed bank issuance
- Investors search for diversification and yield has seen the return of 'true' corporate issuance after a hiatus of nearly 3 years
- Investors are encouraging potential issuers to discuss their interest in the capital markets with them to create the basis for a long-term relationship
- There is scope for lengthening of the typical tenor with recent issues completed and flagged beyond the 5 year mark

What should you be getting from your banker?

NAB offers a comprehensive range of financial services to the University sector.

