



# **BIRLING**

CAPITAL ADVISORS LLC

## **Puerto Rico Economic Update**

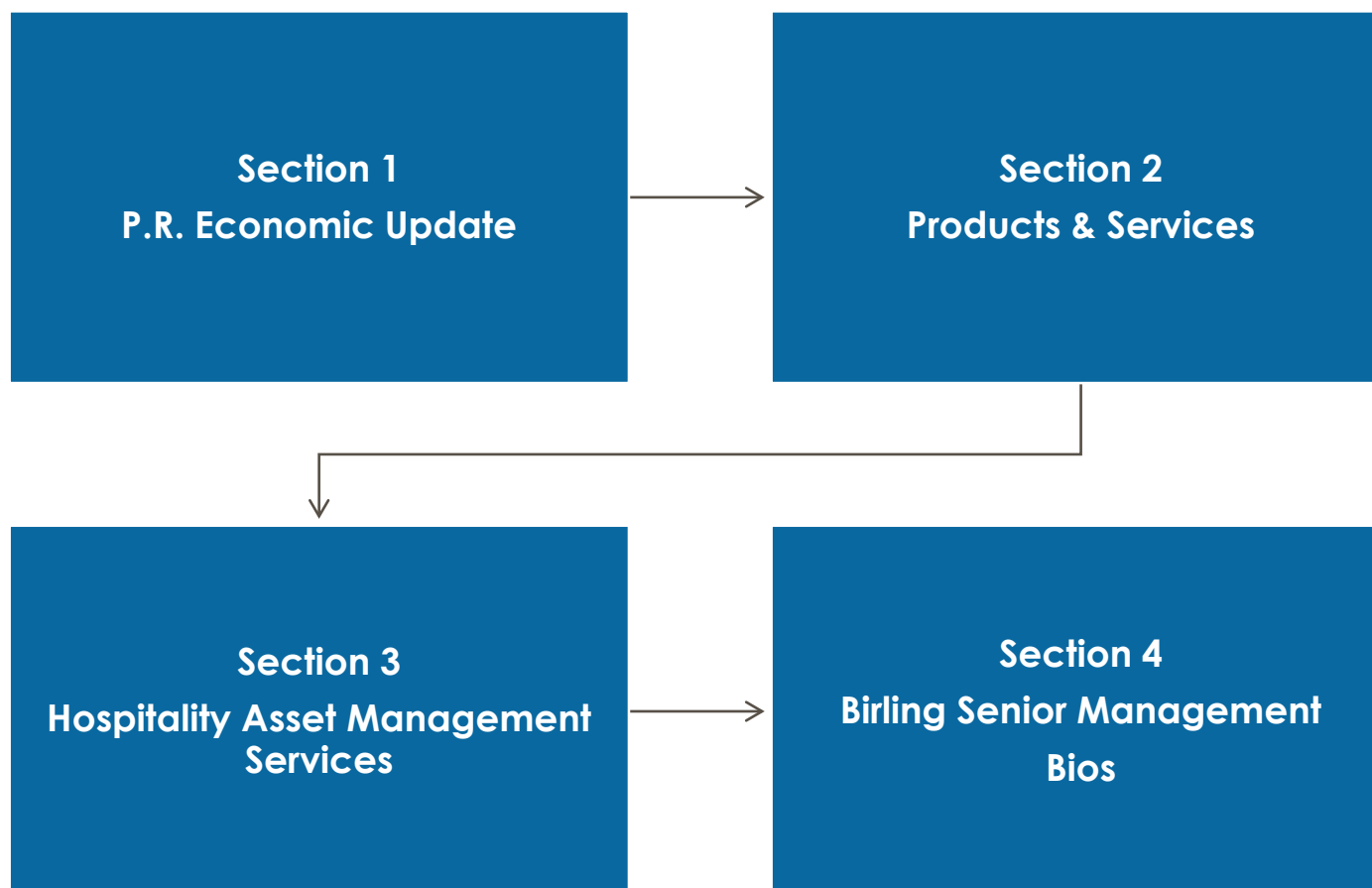
### **3Q19**

Updated 08/12/19





# INDEX





## Section 1

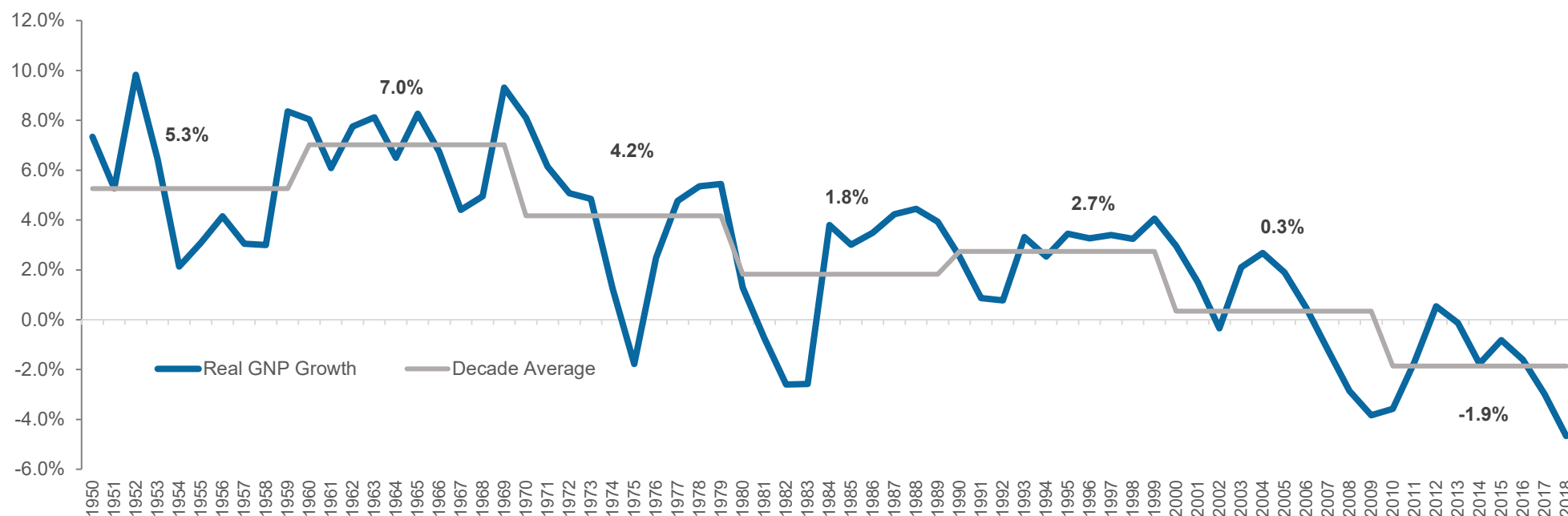
# Puerto Rico Economic Update





# LONG TERM TRENDS Puerto Rico Real GNP

Over the last six decades PR has experienced a rapidly declining growth rate.



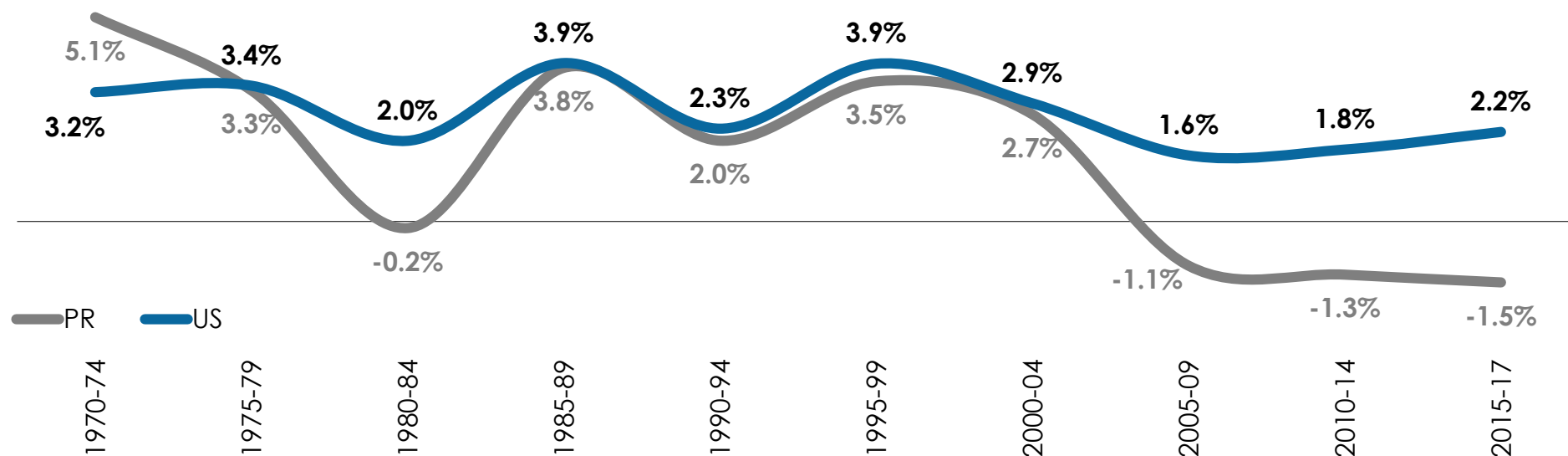
Source: PR Planning Board. Estudios Técnicos, Inc.

- Over the past decades, the economy has faced a collapse of the capacity to generate growth. The recent experience is clearly the culmination of a long process of economic decay.
- Major structural transformations have resulted making useless the traditional economic tool kit for dealing with recessions.



# LONG TERM TRENDS

Average Annual Growth of Real GNP: Puerto Rico and U.S., 1970 to 2017\*



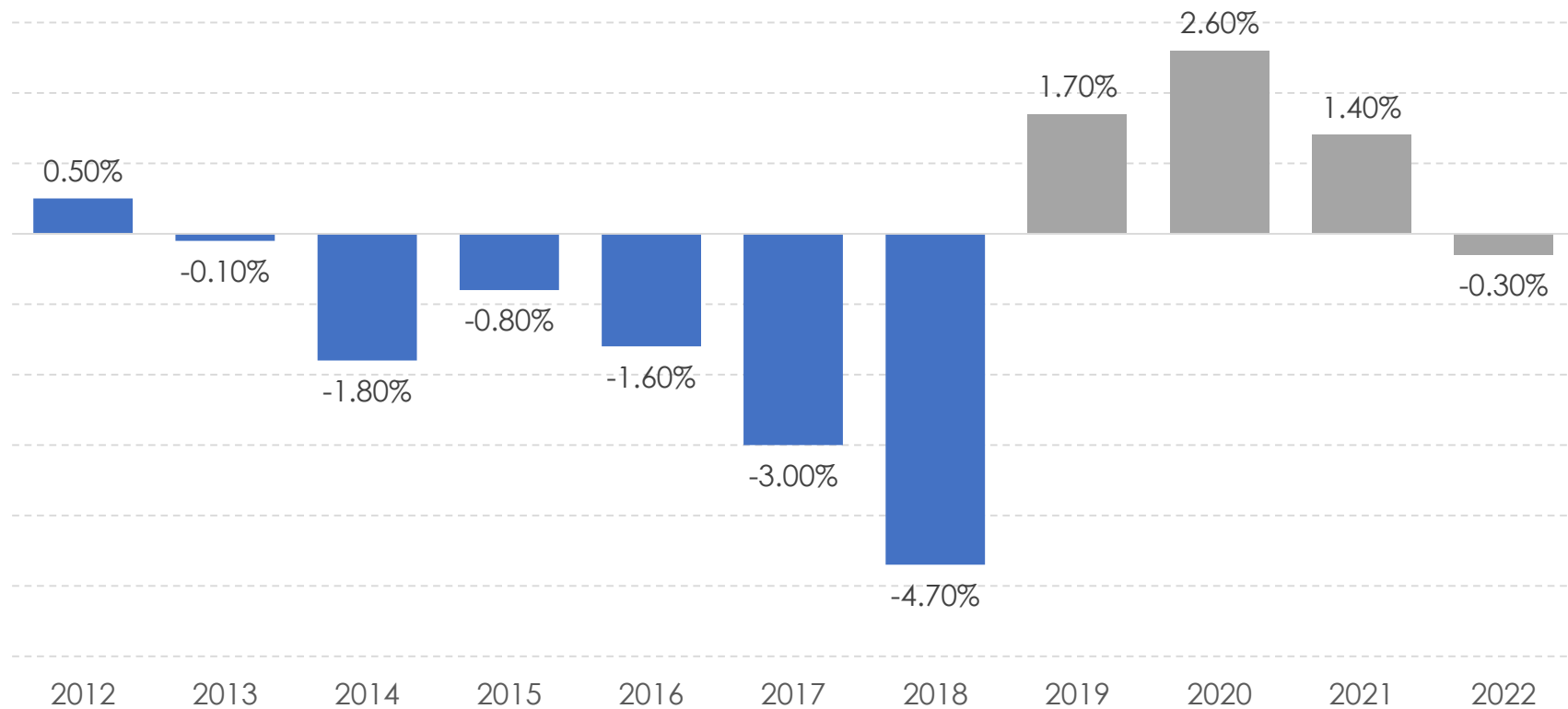
Sources: P.R. Planning Board; U.S. BEA.

\* U.S. data on P.R.'s fiscal year basis.



## GNP Trends

- An economy that has lost over 17% of its output since fiscal year 2006.



Sources: PR Planning Board (2019). 2018 Statistical Appendix [Table 1]. Estimates by Estudios Técnicos, Inc. (July 23, 2019).



# Real GNP Growth Components

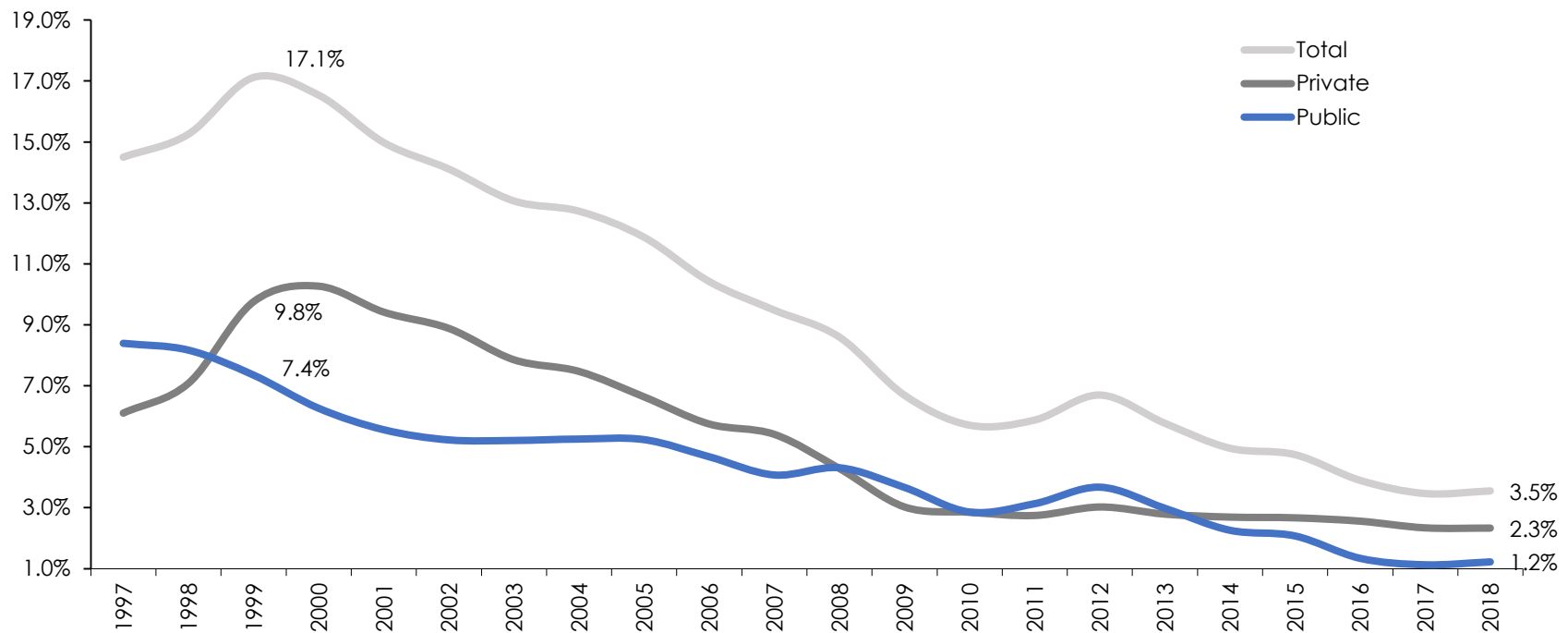
	Historic							Forecasts			
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>GNP (Total)</b>	<b>0.50%</b>	<b>-0.10%</b>	<b>-1.80%</b>	<b>-0.80%</b>	<b>-1.60%</b>	<b>-3.00%</b>	<b>-4.70%</b>	<b>1.70%</b>	<b>2.60%</b>	<b>1.40%</b>	<b>-0.30%</b>
Consumption	2.40%	1.70%	-3.10%	-2.60%	-2.80%	-0.40%	1.10%	1.20%	1.30%	1.40%	0.80%
Government	1.30%	-2.10%	7.40%	-10.50%	-3.80%	2.90%	-2.10%	-1.00%	1.10%	1.00%	3.00%
Gross Domestic Investment	5.80%	-8.90%	-6.00%	0.40%	-7.40%	-2.50%	9.20%	10.50%	15.70%	12.40%	8.50%
Construction	15.60%	-14.80%	-16.70%	-4.40%	-16.90%	-13.00%	-4.30%	9.20%	39.50%	27.40%	13.30%
Public	19.00%	-19.80%	-26.40%	-8.40%	-34.80%	-17.50%	1.20%	17.30%	85.70%	48.30%	21.50%
Private	11.70%	-8.80%	-6.30%	-1.10%	-3.10%	-10.60%	-6.90%	4.90%	12.30%	7.10%	2.30%
Exports	-6.60%	-2.00%	-2.10%	3.80%	1.70%	-1.50%	-0.90%	3.30%	2.00%	1.60%	1.30%
Imports	-0.90%	-0.90%	-2.20%	-1.40%	-1.90%	0.60%	3.40%	2.70%	2.70%	2.90%	2.90%

Sources: PR Planning Board (2019). 2018 Statistical Appendix [Table 1]. Estimates by Estudios Técnicos, Inc. (July 23, 2019).



# Investment in construction / GNP (Current dollars)

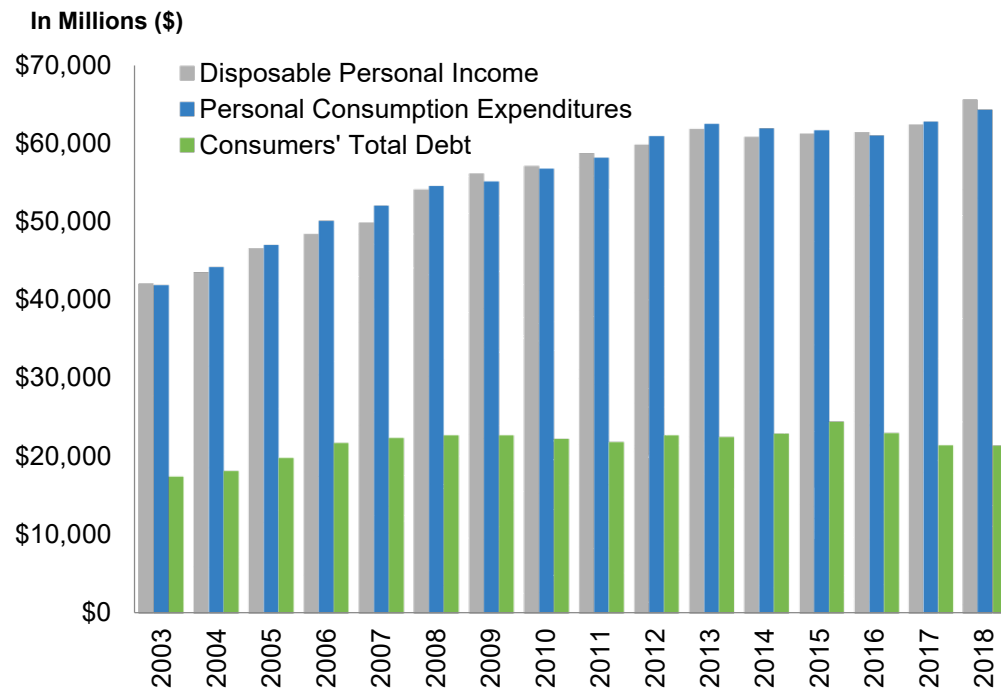
- Investment in construction fell from nearly \$7.0 billion to around \$3.4 billion.



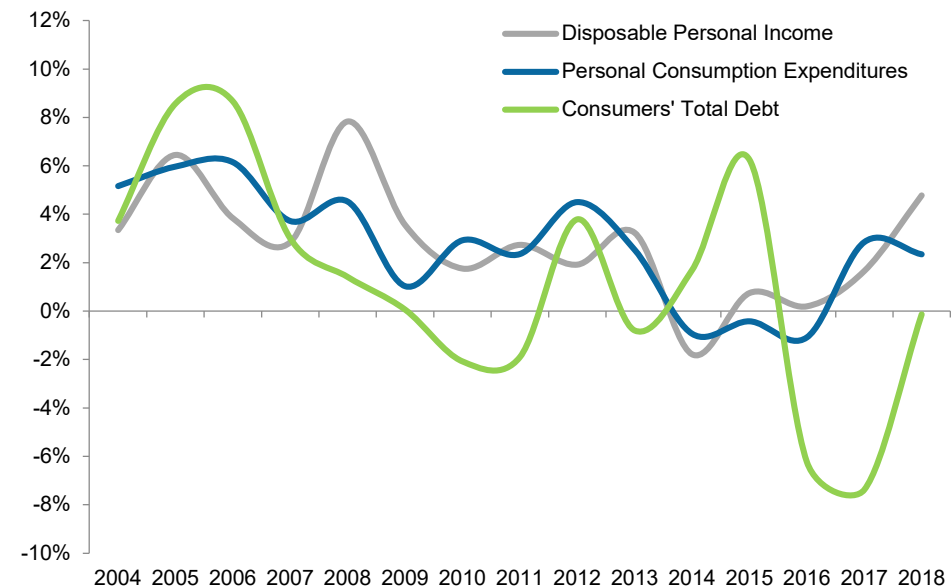
Source: Puerto Rico Planning Board. Estudios Técnicos Inc.



## Level and Growth in Personal Income, Personal Consumption Expenditure and Consumer Debt (current dollars)



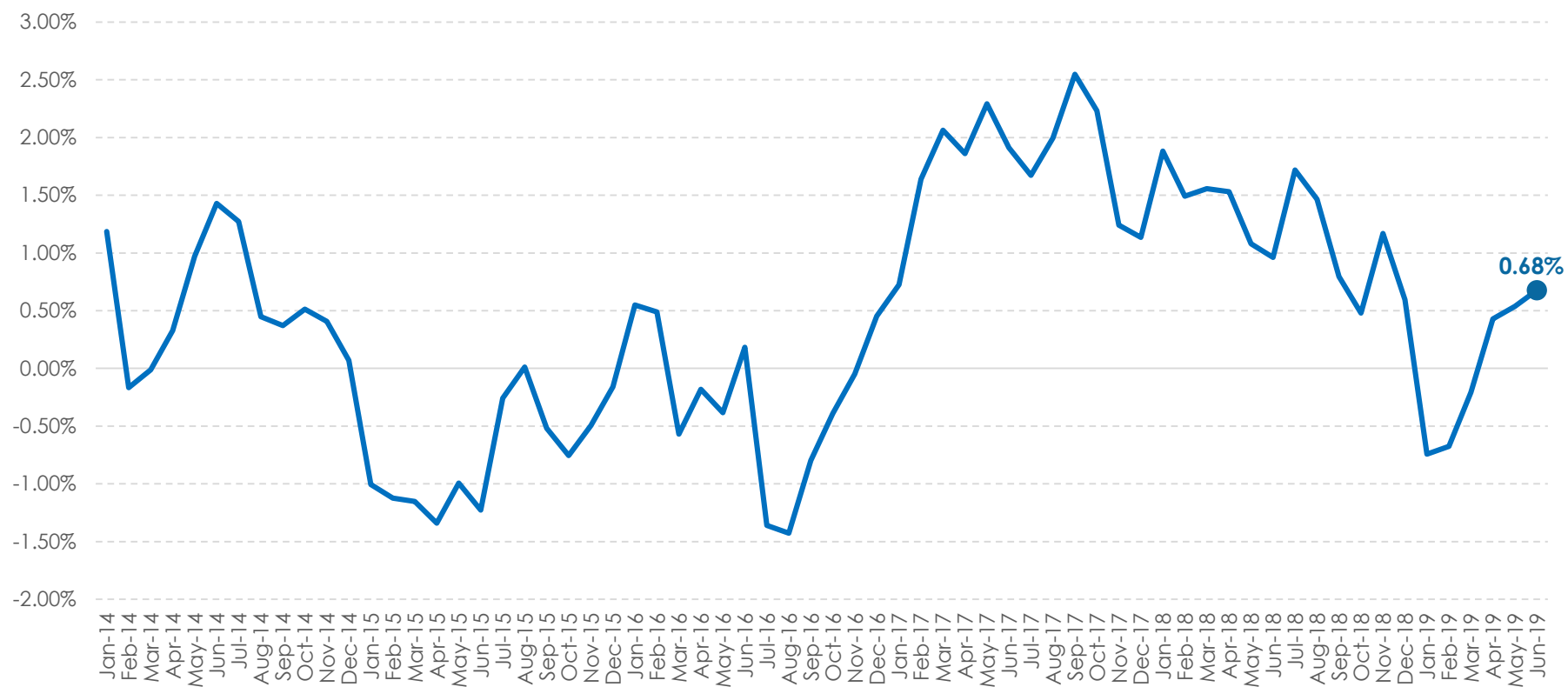
Source: Puerto Rico Planning Board. Estudios Técnicos Inc.



Source: Puerto Rico Planning Board. Estudios Técnicos inc.



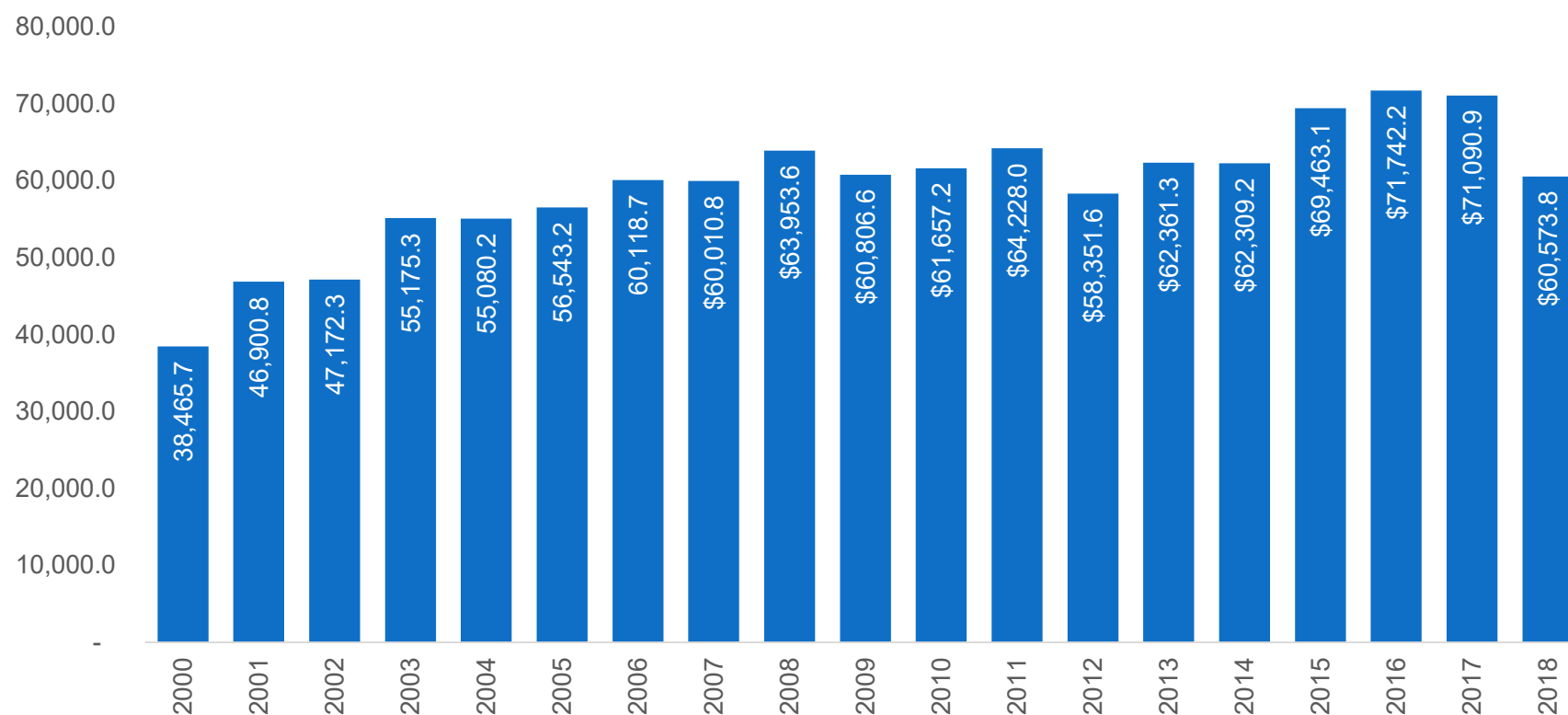
## Monthly inflation rate





# Total exports

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

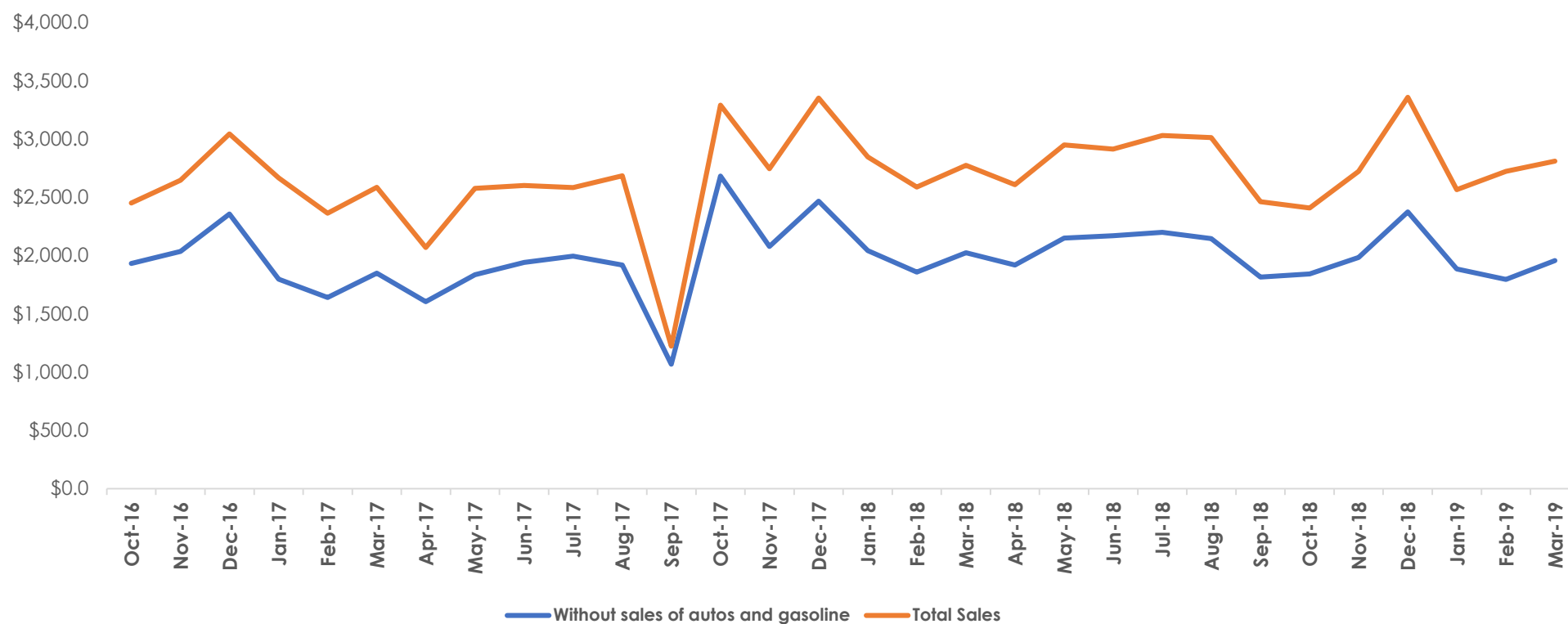




# Retail Sales

## Retail Sales

October 2016 - March 2019

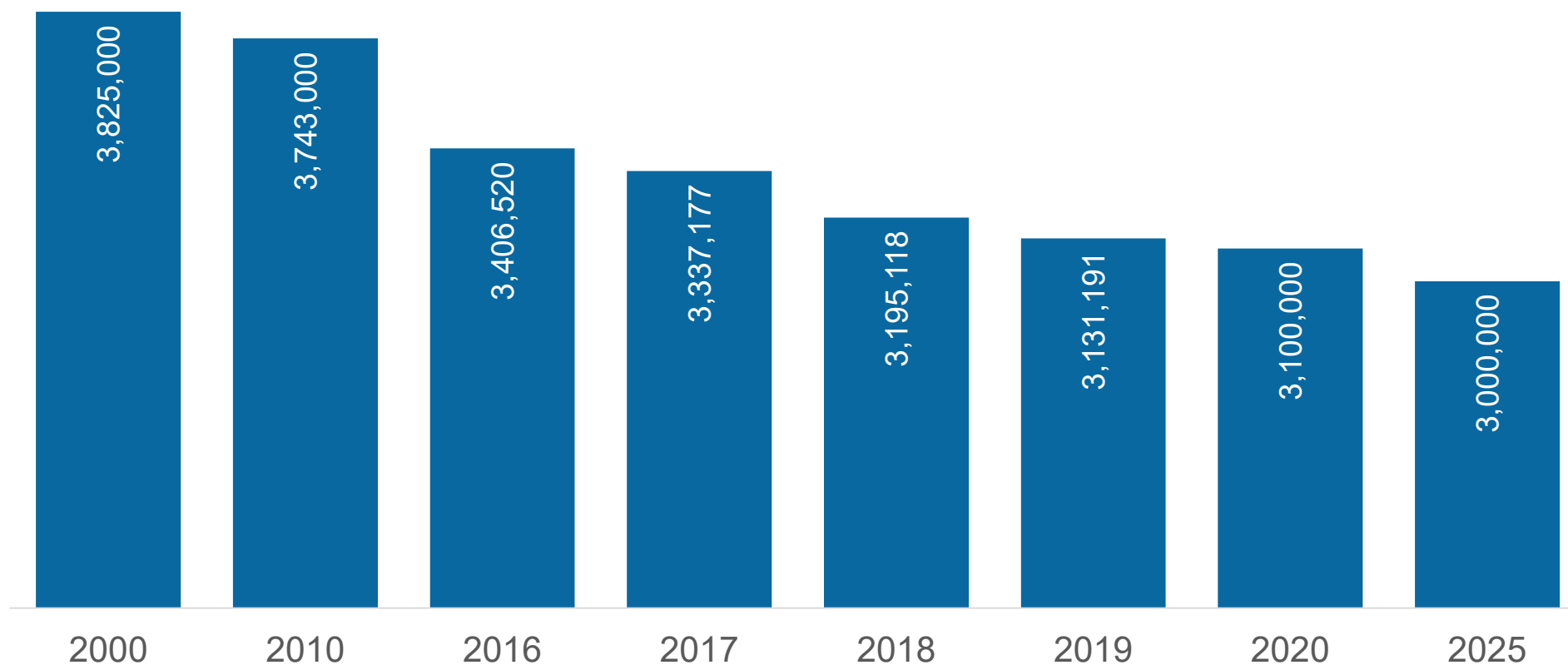


Source: P.R. Trade and Export Company (2019). Infoventas. Estudios Técnicos Inc.

\* Excluding the following sectors: Gas stations and Convenience stores, and Fuel distributors

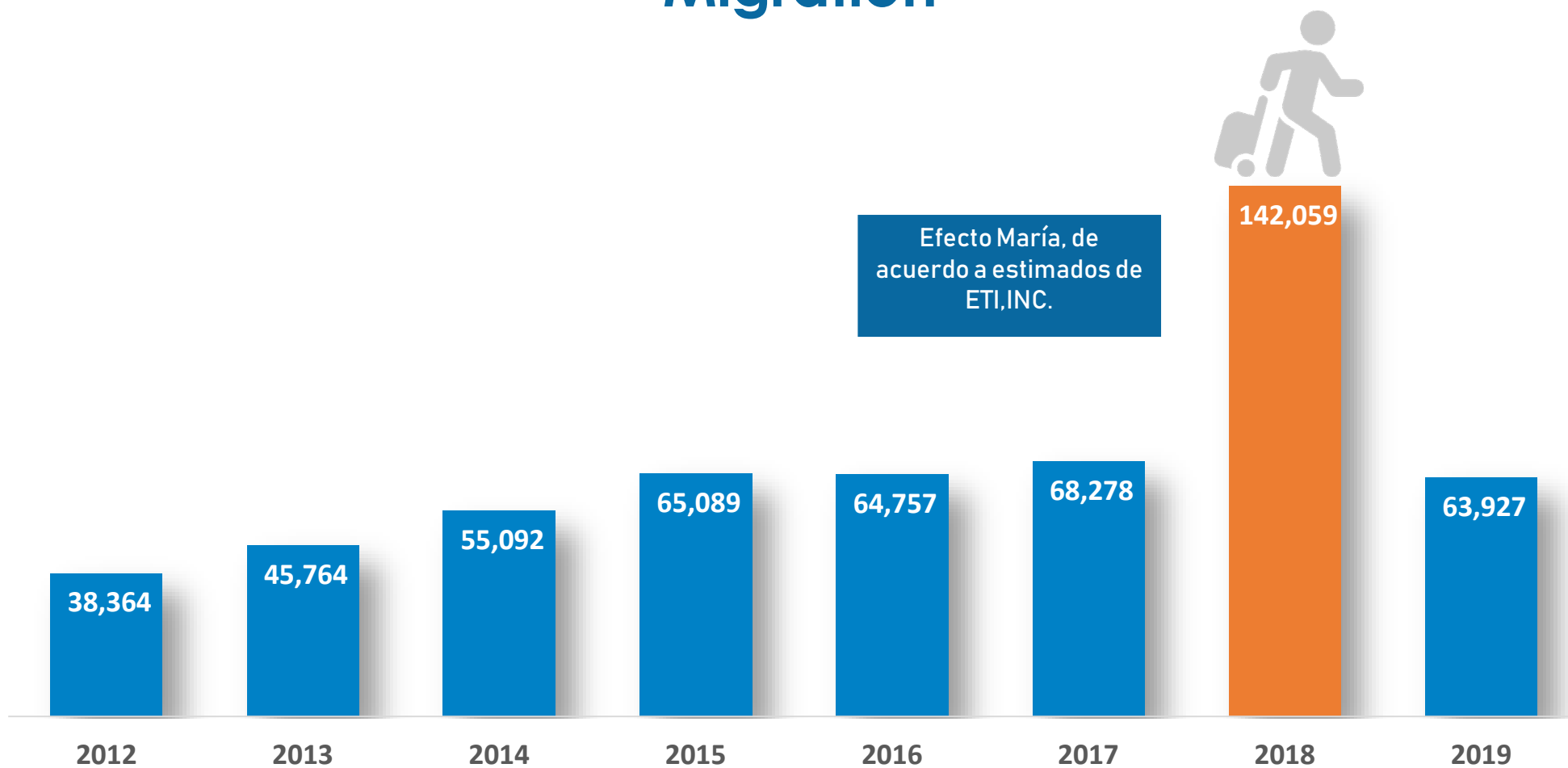


## A SMALLER AND OLDER POPULATION





## Migration

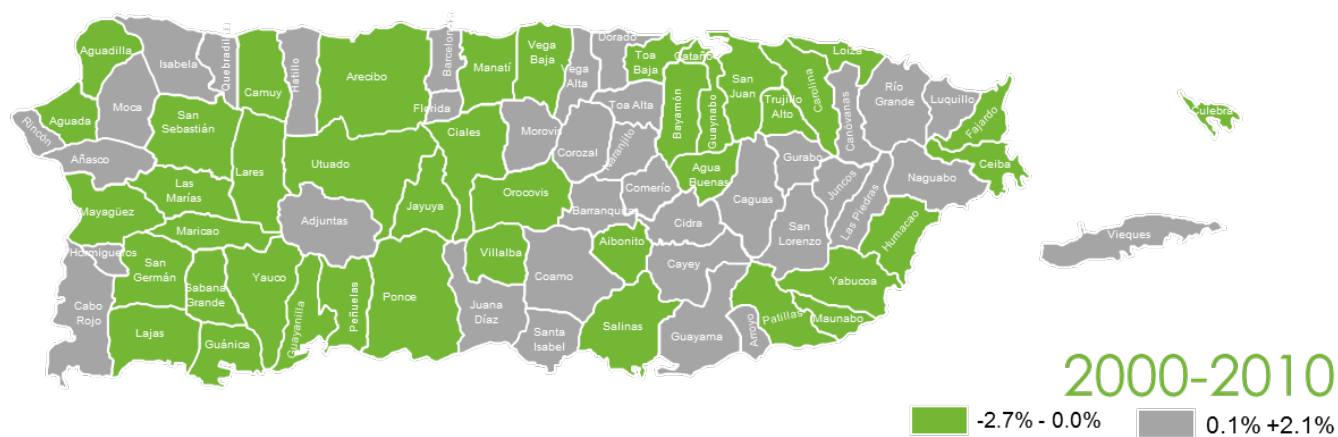
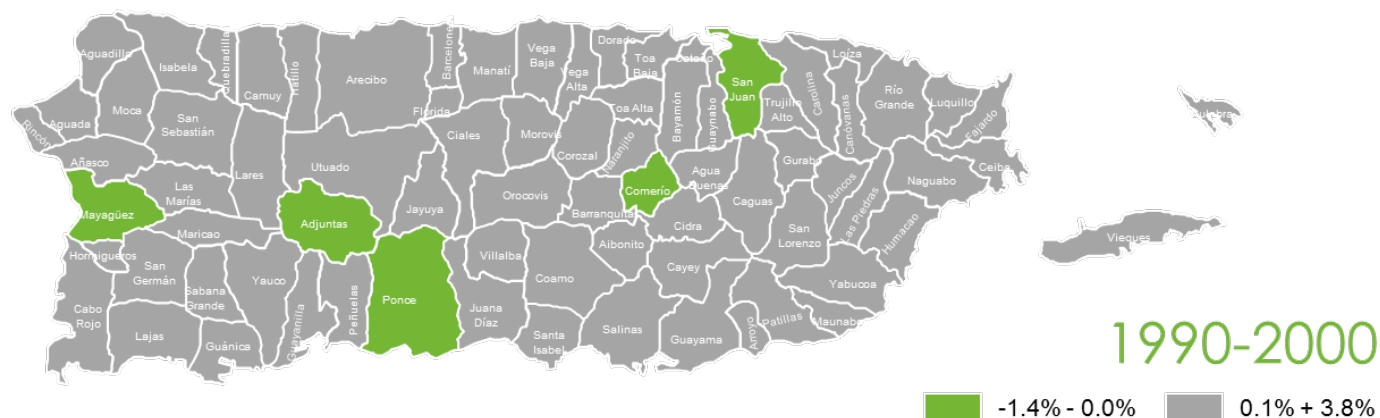


Fuente: Estudios Técnicos Inc.



# DEMOGRAPHIC TRANSITION

CHANGE IN POPULATION ( 2010 CENSUS)

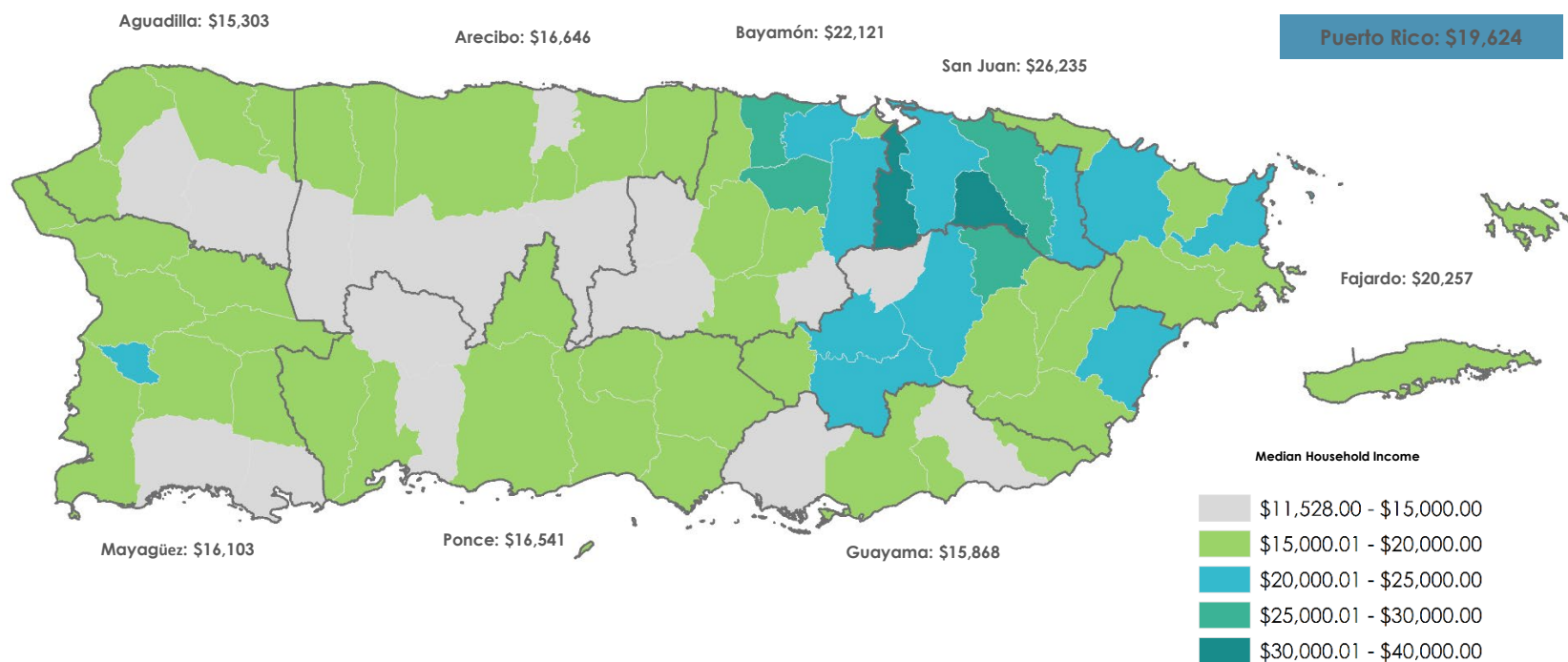


Source: US Census Bureau 2010 & Estudios Técnicos, Inc.



# Geographic Differences

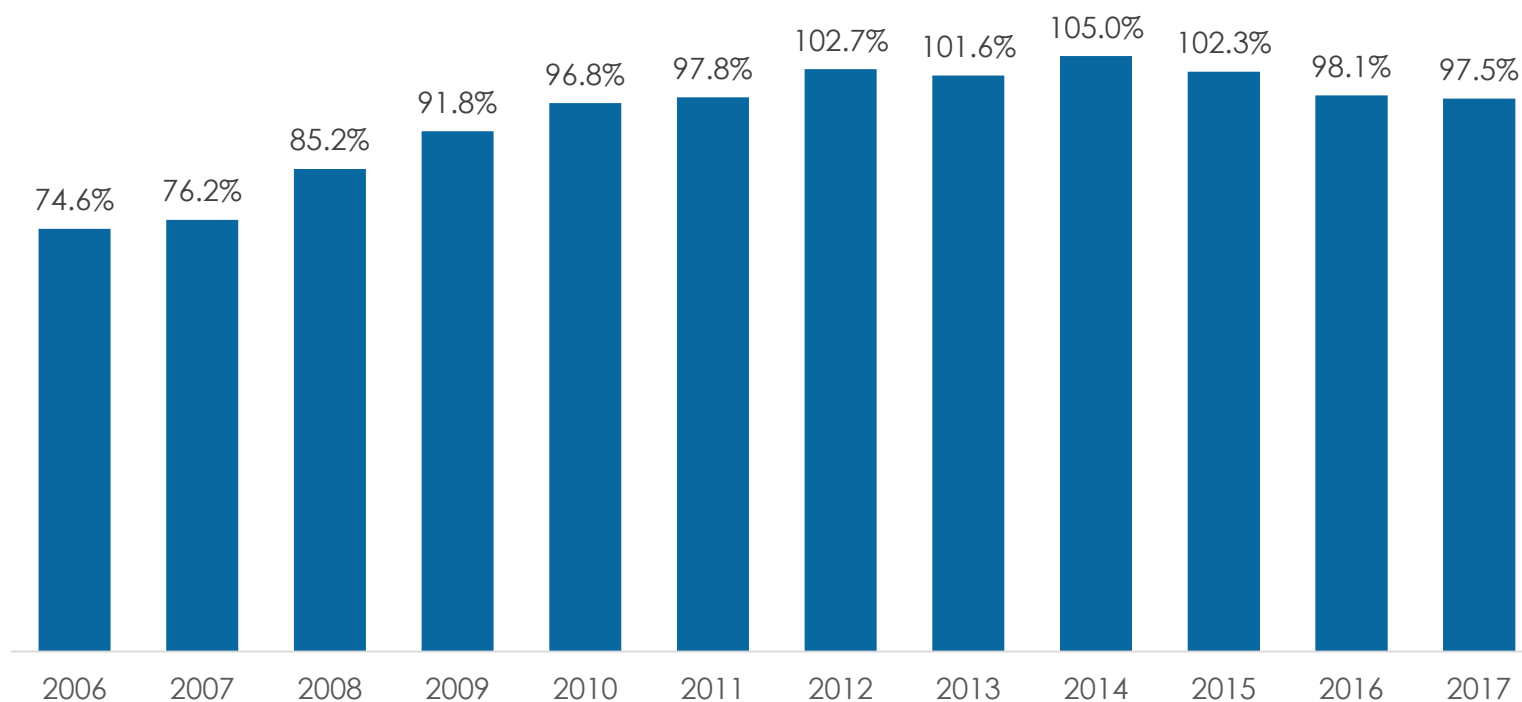
## Median Household Income by Municipality and Region



Source: Encuesta de la Comunidad 2013, Negociado del Censo.



## Total Public Debt as % of GNP



\* As of 2019 total debt was \$69 billion.



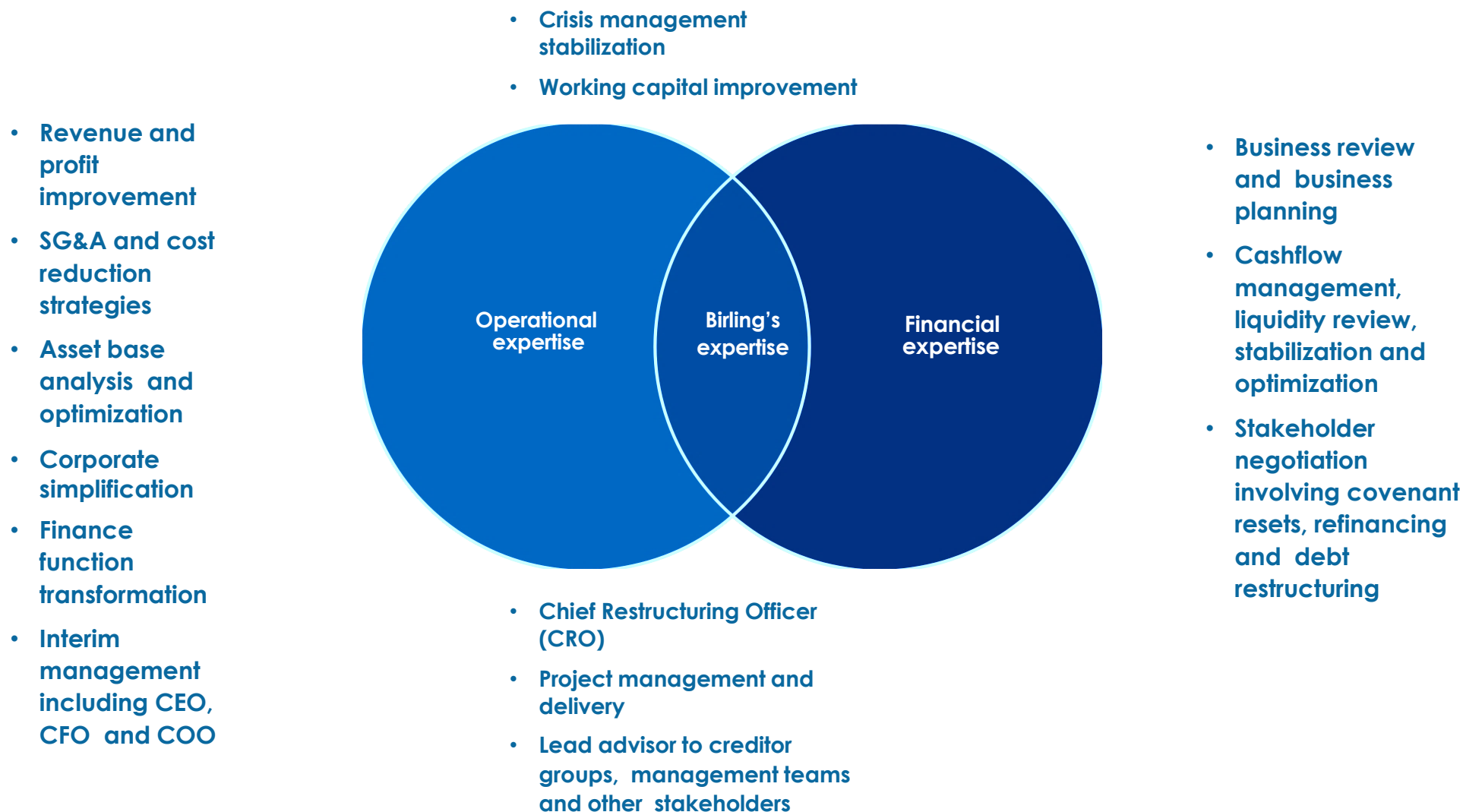
## Section 2

# Products & Services



# Our Integrated Approach

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**Birling combines both operational and financial expertise to provide a full service offering. This means we design the solutions and then work with our clients to implement them.**



# Products and Services

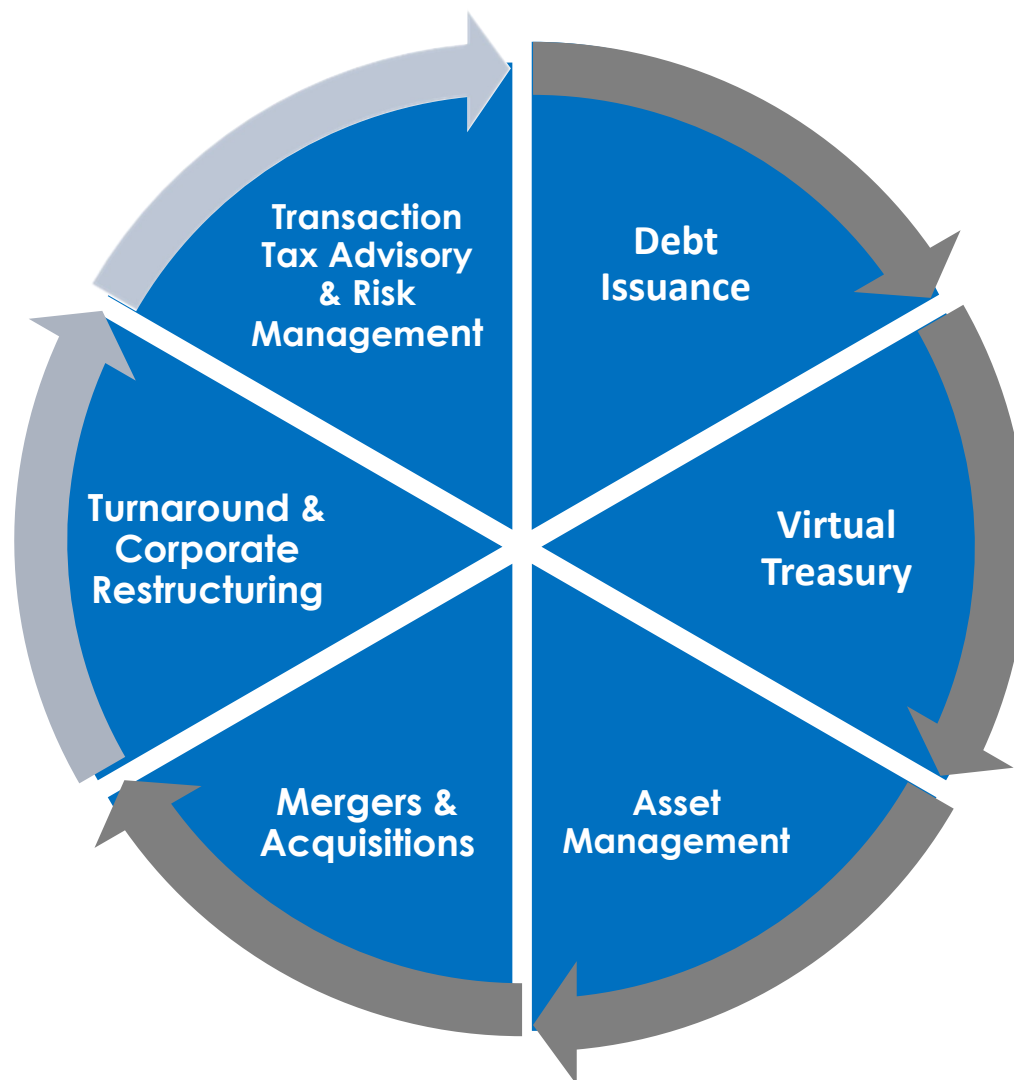
## Consulting and Advisory Practice Focus

- ☐ Family Corporations & Entrepreneurs
- ☐ Financial Institutions & Credit Unions
- ☐ Higher Education and Universities
- ☐ Healthcare & Pharmaceuticals
- ☐ Government
- ☐ Media
- ☐ Insurance
- ☐ Hotels & Commercial Real Estate
- ☐ Tax Credit Consulting
- ☐ Manufacturing and Industrials
- ☐ Retail & Consumer Products
- ☐ Public Private Partnerships
- ☐ Distribution & Services
- ☐ Law 20/22 Segment



# Corporate Financial Planning (CFP)

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# Products and Services



**Hotel & Real Estate Consulting:** Our clients receive the highest quality advice and individual, senior-level attention they deserve.

**Birling works Hospitality industry fundamentals are improving and the global economic environment is primed for another dynamic year with overseas investors and private equity funds lining up to invest in the hotel.**

**Our team with combine 150-years experience in both the debt and equity capital markets and they are regarded as key advisors on the hospitality industry. Put simply, on the hospitality industry our experience spans not only in all aspects of real estate finance and investment but it also spans to non-financial issues affecting valuations that include but are not limited to brand selection, site selection, management company issues and other issues that can affect valuations. We bring tools to the table when we are engaged on a hotel assignment.**

- ❑ Expertise in identifying value-added and repositioning strategies that allow an investor to maximize return, and hence increase the value for our clients.**
- ❑ Understanding how hotels operate as both a real estate investment and as an operating business, and how to maximize the income potential of each asset.**
- ❑ Experience in all facets of the hospitality industry promotes credibility with investors and all sources of both the overseas debt and equity sources of capital.**

# Products and Services

**Transaction Tax Advisory and Consulting:** Birling leverages its deep knowledge of market dynamics and relevant industry trends to provide advice to clients in the United States and Puerto Rico to assist them in developing effective tax planning strategies that will minimize the total costs of doing business in Puerto Rico.

**Our team has advised clients in connection with:**

- ❑ Review tax and legal documentation to advise client on alternatives to monetize tax credits
- ❑ Assist clients with strategy on tax incentives available and how to request these and tax credits filings
- ❑ Advise clients on tax implications of business restructurings, acquisitions and dispositions of lines of business and other business transactions
- ❑ Advise clients on tax implications of corporate strategic vision
- ❑ Review tax implications of financial modeling and preparation of tax projections
- ❑ Work with client's tax advisor to establish strategy in tax controversy projects



# Products and Services

**BIRLING**  
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## Transaction Tax Advisory & Consulting:

### Annuity Work

The services below will involve a monthly fee to provide a high level review of these returns prepared by client's accountant

- ☐ Review monthly sales and use tax returns to identify tax exposures and risks
- ☐ Review annual tax return filings to identify tax exposures and risks
- ☐ Advise clients on reserves established in financial statements due to tax exposures or other tax matters
- ☐ Review monthly withholding tax declarations to identify tax exposures and risks related with withholding taxes on service providers



# Products and Services

**BIRLING**  
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## Tax Credit Advisory and Consulting:

Our team has advised clients in connection with:

- ☐ Act No. 73 *Economic Development Incentives Act*
- ☐ Act No. 20 *Export Service Promotion Act*
- ☐ Act No. 22 *Individual Investors Act*
- ☐ Act No. 27 *Film Industry Economic Incentives Act*
- ☐ Act No. 83 *Green Energy Incentives Act*
- ☐ Act No. 74 *Tourism Development Act*

Working with all of Puerto Rico's tax credit and tax incentives programs. We have successfully negotiated and monetized multiple tax credits.





## Section 3

# Hospitality Asset Management Services





# Asset Management Services



**Birling focuses on Hotel owners, private investors and developers who want to improve the performance of hospitality assets and lack in-house hotel expertise.**

**Often entities that buy hotels but don't have hotel-specific asset managers; institutional owners or developers are among the entities that rely on asset management services.**

# Asset Management Services

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# Asset Management Services

**BIRLING serves these entities by drawing on our unrivaled industry expertise and experience. Our goal is to maximize your assets' value and potential, which we achieve by evaluating your operations, identifying key issues, and suggesting and implementing necessary changes.**

**BIRLING asset management services give you the peace of mind of knowing that your investment is closely monitored and that the solutions in place are tailored specifically to meeting your goals.**



# Asset Management Services

- Attend meetings to gain knowledge regarding the ownership and management structure
- Represent ownership interests in dealing with hotel management
- Act as owner's advisor concerning management and financial performance
- Meet with senior executives of the management organization
- Conduct interviews with members of the on-site management organization
- Analyze the hotel's monthly financial results
- Meet with management representatives on a regular basis
- Visit the hotel on an ongoing basis
- Monitor and evaluate guest satisfaction levels
- Evaluate the strengths and weaknesses of key management staff on a continuing basis



# Asset Management Services

- Monitor the hotel's operating expenses
- Evaluate personnel training procedures and practices
- Monitor any legal and labor issues
- Participate in the development and approval of annual sales and marketing plan, capital improvement plan, and operating budget
- Evaluate all pricing strategies and yield management practices to maximize RevPAR
- Analyze monthly status reports
- Monitor market conditions
- Attend management meetings on a regular basis
- Communicate and meet with owners on a regular basis
- Provide written reports to ownership on a regular basis



## Section 4

# Birling Senior Management Team Bios





# Senior Management Team Bios



## □ 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 International, 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 and Chair (2006-2013) of the Private Sector Coalition a not for profit association.

# Senior Management Team Bios

**BIRLING**  
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**AIRA**  
**hfma**<sup>™</sup> | Association of  
Insolvency &  
Restructuring Advisors

## ❑ Francisco Rodriguez-Castro, President & CEO

In 2007 he created, organized and Chaired the Puerto Rico Health and Insurance Conference a health and insurance services conference.

In 2013 he created, organized and Chaired the Made In Puerto Rico Conference a conference designed to attract investment for Puerto Rico made products and services.

In 2016 he created, organized and Chairs the 1<sup>st</sup> and 2<sup>nd</sup> PROMESA Conference to discuss Puerto Rico's development with the PROMESA Law.

As he created all these conferences Mr. Rodriguez-Castro not only sponsored , he also made sure that 100% of all the profits to the Chamber of Commerce, Puerto Rico Products Association and the Private Sector Coalition.

# Senior Management Team Bios

**BIRLING**  
CAPITAL ADVISORS, LLC



## Francisco Rodriguez-Castro, President & CEO

### ☐ Board Memberships

- University of Miami School of Business 2007-2016
- Securities Industry Association 2005-2013
- Society of CPA Foundation, 2005-20010
- Jane Stern Community Library Foundation 2009-20013

### ☐ Publications

- Mr. Rodriguez-Castro is the author of the Column “Think Strategically” published weekly in the Caribbean Business Newspaper. [www.caribbeanbusiness.com](http://www.caribbeanbusiness.com)
- Mr. Rodriguez-Castro also a frequent writer in El Nuevo Dia, Puerto Rico’s largest Spanish newspaper by circulation.
- To review his publications please go to [www.birlingcapital.com/publications](http://www.birlingcapital.com/publications)

# Senior Management Team Bios

**BIRLING**  
CAPITAL ADVISORS, LLC



## □ Francisco Rodriguez-Castro, President & CEO

**AIRA** | Association of  
Insolvency &  
Restructuring Advisors

**hfma**<sup>™</sup> Healthcare Financial  
Management  
Association

*Among the awards he has received are:*

- Chamber of Commerce Presidents Award Outstanding Service 2017
- 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.
- Risk Management Association Chairman Award 1994



Association of  
Insolvency &  
Restructuring Advisors

Healthcare Financial  
Management Association

# Senior Management Team BIO's

## ❑ Francisco Rodriguez-Castro, President & CEO

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- 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.
- Risk Management Association Chairman Award 1994

# Senior Management Team BIO's

□ CPA César E. Hernández-Monagas, Esq., Principal  
Head of Hospitality, Healthcare and Government Practice



Mr. Hernández-Monagas, Esq. recently joined the firm in 2018 as Principal and leads the firm's efforts in Hospitality, Health Care and Government practices. After working for more than 22 years as CFO of International Hospitality, Owners and Managers of seven hotels, two casinos and several affiliated companies in Puerto Rico with more than \$200 million in average annual revenues and over 1,000 employees. At International Hospitality, he performed value-added analysis on risks and opportunities to assist stakeholders in making informed decisions that delivered on revenues and profits annually, raised capital and financing north of \$1,000 billion, led monthly financial and management reporting processes in a timely, accurate and detailed manner for use by the executive team and ownership groups in the strategic management of the organization.

Prior to working at International Hospitality, Mr. Hernández-Monagas, Esq. worked at Ernst & Young, LLP as Audit Manager. During his tenure at EY, he served clients from different industries including pharmaceutical, manufacturing, government and hospitality. Mr. Hernández-Monagas, Esq. obtained his Bachelor of Science Degree with a Major in Accounting from The Martin J. Whitman School of Management at Syracuse University in 1990 and Juris Doctor from the Interamerican University School of Law in 2001.

Mr. Hernandez is only one of two Certified Hospitality Accountant Executives in the Caribbean Region.

# Senior Management Team Bios

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

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.

## □ **Francisco Castellanos, PMP, Chief Information Officer**

Francisco has extensive experience as a project and product manager for developing database and software solutions of interest. Specialize in problem analysis, resolution and team leadership. Areas of expertise and transferable skills include Strategic Planning, Staff Management, Multicultural Team Leadership, Product Management, Project Management, Clients Relations, System Analysis, System Integration, Process Improvement, Operations Management, Outsourcing, Data Warehousing, Encryption and multilevel security protocols. PMP certified since 2013, Microsoft SQL Databases design and implementation.

# Senior Management Team Bios



## □ **Dr. Anuj Mehrotra, 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.



# BIRLING

CAPITAL ADVISORS, LLC



Francisco Rodriguez-Castro  
President & Chief Executive Officer



Birling Capital Advisors LLC  
PO Box 10817  
San Juan, PR 00922



[frc@birlingcapital.com](mailto:frc@birlingcapital.com)



787-247-2500  
787-645-8430



HIMA Plaza 1 Office Center 403Ave.  
Luis Muñoz Marín Caguas, PR 00725



<http://www.birlingcapital.com>