

ECONOMY

IPOs, Health Care Act and Prepa Title III in the spotlight



Think Strategically: Malefactors of Health & Budget Comeuppance

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IPO market update 2Q17

For the past few months, we have added an initial public offering (IPO) calendar to present investors another option in their diversification process. We have seen 54 new companies file for IPOs raising \$11 billion, which is a significant increase compared to previous years. One notable piece of information is the fact that technology and healthcare account for 50% of the IPOs. Regarding performance, the IPOs drove the average return up to 13%; this compares favorably with the S&P 500 Index, which is up 8.08% year to date. We believe the IPO market is positioned for a bustling quarter and should provide ample opportunities for investors that wish to enter the market.

Malefactors of health: American Health Care Act 2

One of the most dramatic and heroic of leaders, as well as the inventor of the “Big Stick” policy, President Theodore “Teddy” Roosevelt, gave a speech in New York in 1907 that was directed toward the wealthiest in the

U.S., saying: “It may well be that [it] is the determination of the government to punish certain malefactors of great wealth, [who have] been responsible for some...of the trouble; at least to the extent of having caused these men to combine to bring as much financial stress as possible, to discredit the policy of the government.” We have been following the American Health Care

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Act and note that a recent poll shows only 12% of U.S. Americans support the Senate’s version of the Healthcare Act. In addition, 53% prefer to either keep Obamacare intact or fix its problems. We note that Senate Republicans do not have enough votes to pass this bill, and its recent postponement is to avert a defeat. While it would have been easier to fix all the wrongs in Obamacare and keep all that is right, Congress chose to “repeal & replace” to gain political gravitas. There is an overwhelming national consensus on what provisions any healthcare plan should include: Pre-existing conditions; Medicaid expansion; and lower premiums. Sounds straightforward and sensible, right? Better call the Malefactors of Health.

P.R. Update: Budget comeuppance; FOMB takes action

In the next two years, with Puerto Rico facing a fiscal cliff of \$3.4 billion between its revenues and expenses, it became evident that both the Legislature and Financial Oversight & Management Board (FOMB) would not agree on the budget. Therefore, during the board’s, eighth public meeting, FOMB Executive Director

Natalie Jaresko presented their version of the government’s budget with several amendments. Some of the changes include a \$13 million reduction in the Legislature’s budget, on top of the \$11 million cut already in place, a 13.6% proportional reduction in all programs of the Institute of Puerto Rican Culture, and changes to certain special budget considerations, such as for the Milk Industry. Elías Sánchez, the governor’s representative to the FOMB, objected to most of the changes as excessive. The board unanimously certified the budget during the meeting. In addition, the budgets of several Puerto Rico public corporations were approved: the Highways & Transportation, Electric Power and Aqueduct & Sewer authorities and the Government Development Bank.

Prepa files for Title III

After the FOMB’s rejection of the Electric Power Authority’s (Prepa) proposed restructuring support agreement (RSA), the governor requested that Prepa be allowed to file for a Title III proceeding. The FOMB approved the proposal during the meeting. After 11 amended and restated RSAs, more than \$45 million

in restructuring charges and many attempts to fix the situation with Prepa, we shall now see how the authority faces Title III. This move casts doubt on whether Prepa will pay investors \$423 million in principal and interest that was due July 3. Many in the business community are in full support of efforts to privatize Prepa’s generation and any other part of the authority that would allow for its transformation, redevelopment and ultimate reduction in costs per kilowatt-hour from its unsustainable current levels.

Final word

What should infuriate everyone in Puerto Rico is that all these changes in fiscal policy and the budget reductions should have been implemented by our elected officials rather than by the FOMB. Our elected officials need to understand that we are facing this abyss because of their failure to appropriately manage Puerto Rico’s fiscal matters.

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