# Confidential Memo: Strategic Case for QMA + FMV Structure

Subject: Why Option A Outperforms Plain Vanilla PABs in Concurrent Greenfield Concession Bidding

## Executive Summary

Two large greenfield toll road concessions are being bid concurrently, awarded on the basis of the highest upfront concession fee.  
  
The decisive factor is probability of winning. Option A (QMA + FMV, financed with governmental purpose bonds) delivers a structurally lower WACC, allowing us to bid materially higher concession fees. This translates directly into higher expected value (EV) compared to Option B (plain vanilla PAB concession).  
  
If we lose under Option A, it will not be because of cost of capital — it will be because another bidder had different traffic assumptions, risk appetite, or strategic considerations. In such a scenario, we would also have lost under Option B.  
  
We recommend Option A: it maximizes EV by raising the chance of securing both concessions simultaneously.

## Expected Value Logic (Two Concurrent Concessions)

Assumptions:

- Option A IRR if won: 9%  
- Option B IRR if won: 12%  
- Probability of winning one concession (independent): A = 70%, B = 30%

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| Scenario | Option A (QMA+FMV) | Option B (PAB) |
| Win both | 4.41% | 1.08% |
| Win one | 3.78% | 5.04% |
| Win none | 0.00% | 0.00% |
| Expected Value | 8.19% | 6.12% |

Result: Even with a lower IRR per concession, Option A dominates on expected value because it dramatically raises the probability of winning one or both concessions.

## Option A (QMA + FMV Structure)

- Bid Competitiveness: Lower WACC = materially higher concession fee capacity.  
- Win Probability: Significantly higher in a two-asset simultaneous auction.  
- Contractual Flexibility: At year 30, we may:  
 • Exercise the FMV option if return hurdles are met.  
 • Decline the option and renew the QMA with a new subordinate note if the asset is underperforming.  
- Portfolio Effect: Two roads become four concession exposures (two QMA periods, two FMV periods), with re-underwriting points at year 30.

## Option B (Plain Vanilla PAB Concession)

- Strengths: Full upside from day one; ability to sell the concession mid-life.  
- Weaknesses:  
 • Higher cost of capital → weaker bid competitiveness.  
 • Lower probability of winning both concessions (9% vs. 49% for Option A).  
 • Dependent on PAB allocations; if unavailable, forced into taxable bonds, compressing IRR.  
 • Flexibility is market-driven (sale) rather than contractual (FMV option).

## Rebuttals & Responses

* Rebuttal 1: “Option A limits upside in the first 30 years.”
* Response: True, synthetic returns cap near-term upside — but only if we win. Option B may offer more upside if won, but the lower chance of winning means the expected value is smaller. Securing the concession at all is the greater prize.
* Rebuttal 2: “Option A forces us to pay twice at FMV.”
* Response: FMV is not a penalty — it’s a new investment decision at market terms. If returns underwrite to our hurdle, we reinvest; if not, we walk away or renew the QMA. This is more flexible than being locked in for 50 years under Option B.
* Rebuttal 3: “Option A introduces refinancing risk at year 30.”
* Response: Yes, but refinancing risk comes with optionality. If markets are unfavorable, we can decline the FMV buyout and maintain synthetic exposure. Option B, by contrast, provides no such contractual protection.
* Rebuttal 4: “Option A is too complex for investors.”
* Response: Complexity is outweighed by bid competitiveness and certainty of execution. LPs ultimately want to win assets and deploy capital. A structure that consistently wins auctions is easier to explain than a higher-IRR structure that loses.
* Rebuttal 5: “Option B has strategic flexibility via sale of concession.”
* Response: Correct, but that flexibility is market-dependent (requires a buyer at the right time). Option A’s flexibility is contractual: we control the decision at year 30, not the market.

## Conclusion

Option A is not without drawbacks, but the math is clear:  
- Option A EV = 8.2% vs. Option B EV = 6.1%.  
- Two concurrent bids magnify Option A’s advantage — 49% chance of winning both vs. 9% under Option B.  
- If we lose under Option A, we would have lost under Option B as well.  
  
In short: While Option B may offer higher upside in isolation, Option A wins more often. And in a concession auction, winning is paramount.