



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MAY 17, 2023

FROM: CARGO & INDUSTRIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVE THE THIRTEENTH AMENDMENT TO PERMIT NO. 692 WITH YUSEN TERMINALS, LLC; AND APPROVE GUARANTEES FROM OCEAN NETWORK EXPRESS HOLDINGS, LTD. AND OCEAN NETWORK EXPRESS PTE. LTD.

SUMMARY:

Staff requests approval of the following concerning Yusen Terminals, LLC (Yusen), a tenant of the City of Los Angeles Harbor Department (Harbor Department) under Permit No. 692 (Permit):

- 1) Thirteenth Amendment to Permit No. 692 which removes Nippon Yusen Kabushiki Kaisha, Ltd. (NYK) as the guarantor and adds Ocean Network Express Holdings, Ltd. and Ocean Network Express, Pte. Ltd.; and
- 2) Guarantees furnished by Ocean Network Express Holdings, Ltd., and Ocean Network Express Pte. Ltd., in place of the existing guaranty from NYK.

Yusen notified the Harbor Department of a pending change in its ownership composition. Ocean Network Express Pte. Ltd., through a subsidiary, would acquire 51 percent of the interest in Yusen from NYK, and Macquarie Infrastructure and Real Assets, L.P., a subsidiary of Macquarie Group Limited, would continue to own the remaining 49 percent. In connection with this change in ownership, Yusen requested that Ocean Network Express replace NYK as the guarantor.

Under the Thirteenth Amendment, the existing guaranty provided by NYK would be terminated in favor of new guarantees furnished by Ocean Network Express Holdings, Ltd. and Ocean Network Express Pte. Ltd. Ocean Network Express Holdings, Ltd. is a joint venture which integrated the container shipping businesses of NYK, Mitsui O.S.K. Lines Ltd. (a/k/a MOL Lines), and Kawasaki Kisen Kaisha, Ltd. (a/k/a "K" Line). Ocean Network Express Pte. Ltd. is a subsidiary of Ocean Network Express Holdings, Ltd.

No other changes will be made to the Permit or terminal operations under this action.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that the Director of Environmental Management has determined that the proposed actions are administratively and categorically exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) and Article III Class 1(14) of the Los Angeles City CEQA Guidelines;

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2. Approve the Thirteenth Amendment to Permit No. 692;
3. Approve the Guarantees furnished by Ocean Network Express Holdings, Ltd. and Ocean Network Express Pte. Ltd.;
4. Direct the Board Secretary to transmit the Thirteenth Amendment to Permit No. 692 to the City Council for approval pursuant to Section 606 of the City Charter;
5. Authorize the Executive Director to execute and the Board Secretary to attest to the Thirteenth Amendment to Permit No. 692; and
6. Adopt Resolution No. _____.

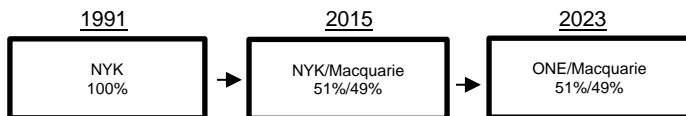
DISCUSSION:

Background - The Harbor Department issued Yusen, a terminal operator at the Port of Los Angeles (Port), the Permit, as amended, to operate through September 30, 2026. Yusen operates a marine container terminal at Berths 212-224, 901 New Dock Street. See Transmittal No.1 – Site Map.

Change in Ownership/Guarantor – Permit Requirements

Under the Permit, the change in the ownership of Yusen does not require Board approval or consent. However, a change in the guarantor requires an amendment to the Permit, which is subject to approval by the Board and Los Angeles City Council. Staff assessed the wherewithal of the existing guarantor and proposed guarantors and determined the new guarantees are more favorable to the Harbor Department than the instrument in place today. As such, staff recommends the Board approve the Thirteenth Amendment.

Provided below is a diagram illustrating the changes in Yusen’s upstream ownership since the inception of the Permit.



Transfer of 51 percent of the equity ownership of NYK Ports LLC (which directly owns and controls 100 percent of Yusen)

Currently, 51 percent of the equity ownership of NYK Ports LLC (which directly owns and controls 100 percent of Yusen) is ultimately owned/controlled by NYK, and 49 percent is owned/controlled by MIP III Bluefin A HoldCo, LLC, a subsidiary of Macquarie Infrastructure and Real Assets. See Transmittal No. 2 for the hierarchy organizational chart.

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Initially, the Permit was issued to NYK, however, under the Second Amendment, the Permit was assigned to Yusen, but NYK essentially continued to serve as the guarantor.

On February 6, 2023, Yusen notified the Harbor Department that 51 percent ownership of NYK Ports LLC (that owns 100 percent of the equity shares of Yusen), would transfer from NYK to a subsidiary of Ocean Network Express Pte. Ltd. (ONE), a Singapore private limited company (hereinafter referred to as the "ONE Transfer"). In connection with this transfer, Yusen requested the Harbor Department to amend the Permit to remove NYK as the guarantor and accept guarantees furnished by Ocean Network Express Holdings, Ltd., a Japanese corporation, and Ocean Network Express Pte. Ltd., a Singapore private limited company, in place of the existing guaranty from NYK. See Transmittal No. 2 for the post-transaction hierarchy chart, Transmittal No. 3 for guarantees, and Transmittal No. 4 for the Thirteenth Amendment.

ONE was founded in 2017 as a joint venture between NYK, MOL Lines, and "K" Line. The company was formed as part of a larger process of consolidation that was occurring in the container shipping industry at that time. It merged the container shipping divisions of the three companies.

Evaluation and Analysis of the ONE Transfer

1. Ocean Network Express Pte. Ltd

The Harbor Department's Finance Division reviewed the audited financial statements of Ocean Network Express Pte. Ltd. relative to the audited financial statements of NYK for the periods ending March 31, 2022, March 31, 2021, and March 31, 2020.

Staff noted that Ocean Network Express Pte. Ltd. held 705 percent more cash than NYK as of March 31, 2022. Furthermore, staff noted that Ocean Network Express Pte. Ltd.'s interest-bearing debt represented only 0.1 percent of assets while NYK's interest-bearing debt represented 22.9 percent of assets as of March 31, 2022. Lastly, as of March 31, 2022, Ocean Network Express Pte. Ltd. generated an operating margin of 56.5 percent vs. an operating margin of 11.8 percent at NYK. Based upon the above analysis, staff has observed that Ocean Network Express Pte. Ltd. was more liquid, less leveraged as well as more profitable relative to NYK as of March 31, 2022, and appears to possess a reasonable level of financial wherewithal to serve as a guarantor under Permit No. 692.

2. Ocean Network Express Holdings, Ltd.

Finance staff has also reviewed financial statements prepared in accordance with accounting principles generally accepted in Japan for Ocean Network Express Holdings, Ltd. for the same periods noted above. Based upon this review, staff noted that Ocean Network Express Pte. Ltd. is listed as a major consolidated subsidiary of Ocean Network Express Holdings, Ltd. in addition to 39 other global

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subsidiaries that are consolidated for reporting purposes. Similar to Ocean Network Express Pte. Ltd., Ocean Network Express Holdings, Ltd. appears to possess a reasonable level of financial wherewithal to further support financial obligations as a guarantor under Permit No. 692.

Under this transaction, the existing guaranty provided by NYK would be terminated in favor of new guaranties furnished by Ocean Network Express Holdings, Ltd. and Ocean Network Express Pte. Ltd. Securing Ocean Network Express Holdings, Ltd. as an additional guarantor beyond Ocean Network Express Pte. Ltd provides further financial capability to pay obligations under Permit No. 692.

With respect to Yusen's operations at the Port, Yusen will remain the tenant under the Permit, and the current day-to-day operations of Yusen will remain the same and are expected to be unaffected because of the ONE Transfer.

It is noteworthy that Yusen's Permit is structured differently than the TraPac permit in as much as this transfer as contemplated does not require Harbor Department consent, but rather requires an amendment to revise the guarantor. Despite the two permits having different assignment provisions and requirements, staff assessed Ocean Network Express Pte. Ltd., and Ocean Network Express Holdings, Ltd.'s financial wherewithal in the context of the collective liabilities arising from Yusen and TraPac's respective permits. Staff determined Ocean Network Express Pte. Ltd., Ocean Network Express Holdings, Ltd. appear to possess a reasonable level of financial wherewithal to serve as a guarantor under both permits.

Required Regulatory Approvals – The parties secured the required regulatory approvals from the Committee on Foreign Investment in the United States on the transfer.

Requested Action: Staff requests the Board approve:

- 1) Thirteenth Amendment to Permit No. 692 which removes NYK as the guarantor; and,
- 2) Guarantees furnished by Ocean Network Express Holdings, Ltd., a Japanese corporation, and Ocean Network Express Pte. Ltd., a Singapore private limited company, in place of the existing guaranty from NYK.

ENVIRONMENTAL ASSESSMENT:

The proposed actions are the approval the Thirteenth Amendment to Permit No. 692, and guarantees furnished by Ocean Network Express Holdings, Ltd. and Ocean Network Express Pte. Ltd., which are administrative activities and an amendment to a Permit to use an existing facility involving negligible or no expansion of use. Therefore, the Director of Environmental Management has determined that the proposed actions are administratively and categorically exempt from the requirements of CEQA in accordance with Article II Section 2(f) and Article III Class 1(14) of the Los Angeles City CEQA Guidelines.

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FINANCIAL IMPACT:

Yusen will continue operations under Permit No. 692 until September 30, 2026. Over the four-year period from October 1, 2022, through September 30, 2026, staff estimates that minimum annual guaranteed compensation obligations under Permit No. 692 will total approximately \$158.6 million.

Staff has reviewed financial information pertaining to Ocean Network Express Holdings, Ltd., Ocean Network Express Pte. Ltd. as well as NYK for the most recently available three fiscal years. As of the most recently completed fiscal year, staff observed that key liquidity, leverage and profitability metrics of Ocean Network Express Holdings, Ltd. and Ocean Network Express Pte. Ltd. are stronger relative to NYK. Furthermore, it appears that Ocean Network Express Pte. Ltd. possesses a reasonable amount of financial wherewithal to serve as an ultimate majority owner of NYK under Permit No. 692.

CITY ATTORNEY:

The proposed Thirteenth Amendment and Guarantees are approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

- 1. Site Map
- 2. Hierarchy Chart
- 3. Guarantees
- 4. Thirteenth Amendment

FIS Approval: MB
 CA Approval: SO

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