

What Buyers Want from Rail

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Independent Transport Advisor



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- CEO of busiest vertically integrated UK railway
- Privatisation Director, British Railways Board
- Head of Booz Allen Hamilton transport team in UK
- CEO of largest UK private operator, Connex
- CEO first private underground in Europe
- Director Dublin LUAS tram system
- Commercial lead on Boston commuter rail bid
- Advisor to TfL on Railways Bill UK



What kind of Operator am I?

- Management Buyout Team
 - Self preservation and freedom
- Entrepreneurial business operator
 - Early Bird catches the worm
- Delegated Management Team
 - Management fee mentality
- Other State Railway Operator
 - Why am I doing this?



Basic Requirements

- Profit (between 2%-10% of turnover?)
- Defined, quantifiable scope of business
- Stable contractual relationship
- Clear understanding of objectives of sale
- No arbitrary termination clauses
- Reasonable contract length
- Maximum ability to adjust cost base to demand

- **But mostly clear understanding of and capability to manage risk**

Principle areas of risk



- Political
- Regulatory
- Contractual
- Revenue
- Staff and Industrial Relations
- Operator risk
- Bidding costs

Political Risk



- Change of Government
- Change in fares policy
- Stop–Go investment
- Political Popularity (the grass is always greener)
- Local Issues (Scottish Sleepers)
- Change of heart (Rosco Margins)

Regulatory Risk



- Safety costs
- Modifications to trains
- Disabled access
- Competition
- Open access operators
- Investment implications

Contractual Risk

- Franchise Length
- Termination at will
- Who pays for what (Network Rail-Electrification)





Revenue Risk

- **Growth Risk** (incremental cost, commuter services)
- Economic Cycle v long term growth phasing
- Terrorism
- Force Majeure

but

- Can be offset by risk sharing (cap and collar)
- Proven success of yield management

Staff and Industrial Relations Risk



- Have you secured the staff (Swedish example)
- TUPE considerations
- Trade Union power
- Salary drift
- Skill shortage (train or poach)



Operator Risk

- Insurance costs
- Fuel, utilities costs
- Pension costs
- Interest rates

But the largest risk is

- Ignorance and inexperience



Bidding Risk

- More players coming into the market
- Bids cost \$3-5m a time
- Win rate less than 1 in 5
- \$25m recoverable from each franchise won
- As market matures margins are squeezed
- Some players will leave the market
- Need a transparent process (or litigation)
- Level playing field, no political bias

Getting the best from the deal



- The more accurate the spec the keener the bid, be clear what you want to do.
- Get good advice and test the market before competition starts
- Get any possible options priced at time of the bid to avoid monopoly negotiations
- Be prepared to share the risks involved in a structured way (Governments cannot walk away)
- It is in Governments interest to make it work