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INSIGHT

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Who controls our infrastructure?

With a special feature on ▶

The global rail sector

KPMG

cutting through complexity



Driving rail's value proposition:

FACILITATING FREIGHT



Our focus is on finding investments that are not only long-term, sustainable and defensible; they also need to demonstrate an ability to create incremental value above and beyond the inherent value of the fixed assets.

Alex Yeros,
Managing Director, The Broe Group

Warren Buffet isn't the only savvy investor to recognize the long-term asset value and stability of freight rail. Over the past decade, strategic investors have been eagerly snapping up available freight rail assets in the US and around the world. At the same time, thousands of miles of new freight rail networks are being developed, both in developed markets and – increasingly – in emerging markets as well. Now the focus is starting to shift towards driving value from those assets – for owners, for operators and for customers.

By Piyush Mishra & Travis Hemphill, KPMG in the US

Those active in the rail sector know that the value of rail far exceeds the sum total of its assets. As Alex Yeros, Managing Director of The Broe Group notes, "Investors sometimes overlook the fact that these aren't just assets to own; they are also operating businesses that are intertwined into local economies and, as such, carry broader risks and opportunities that need to be carefully managed if value is to be truly created."

Yet far too often, equity investors tend to view their rail assets as passive investments which, left alone, can deliver a steady rate of return over a relatively long time span. And while this is somewhat true, the reality is that – with active management and targeted investment – rail operators and owners could be creating incremental value for their shareholders, communities and customers. And, in doing so, can greatly enhance the overall value of their investments.



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Kevin Shuba, CEO, OmniTRAX



A STRONG VALUE PROPOSITION

Through their OmniTRAX subsidiary, The Broe Group has invested heavily into rail assets in North America. "Our focus is on finding investments that are not only long-term, sustainable and defensible; they also need to demonstrate an ability to create incremental value above and beyond the inherent value of the fixed assets," added Mr. Yeros. The key, he adds, is in creating the right operating company with the right mix of assets to drive new and diverse growth.

Alongside rail assets, The Broe Group also owns a sizable commercial real estate portfolio, various oil and gas assets, as well as ports, terminals and industrial complexes. "We've focused on creating entities that enable us to develop a much more stable and diversified business base around our rail assets and then we use our experience and expertise to create synergies across the business units in a way that drives value for our customers and communities."

DRIVING ORGANIC GROWTH

As the operator and developer of the Group's rail and industrial park assets, OmniTRAX focuses on understanding and responding to the shifting demands of their nearly 400 industrial customers. "The best way to improve the value of rail assets is through organic growth and so we spend a lot of time understanding our customer base and what other commodity flows they represent," noted Kevin Shuba, CEO of OmniTRAX. "It's really about creating a broader business base, a more diverse customer base and – in doing so – creating a more solid franchise to serve our customers."

Key to the OmniTRAX strategy is a focus on building a network of assets including ports, terminals and loading assets that – when combined – creates valuable solutions for customers. "For us, it's about providing a total logistics supply chain that seamlessly manages everything from the first mile to the last; it's about partnering with our customers to help them manage their flow of goods more efficiently, more reliably and more cost effectively."

MAXIMIZING INVESTMENT

In part, this requires OmniTRAX to run an efficient rail operation, ensuring that resources

are allocated effectively and that investment is going to the right places to maximize value for their customers, whether that be through faster switching, loading and unloading or through improved maintenance to reduce down-time or service interruptions.

"We want to maximize the maintenance dollars we spend and one of the ways we've done that is by going mile post to mile post on our existing infrastructure to truly understand – in a granular way – what traffic is running over each mile of rail and what it will take to really harden those railroads to get the highest efficiency out of it," added Mr. Shuba.

Adding value for customers also requires the organization to invest in improving the efficiency of operations and processes at the terminals and ports which, in the case of assets managed by OmniTRAX is often handled by their own internal division, OmniTRAX Logistics Solutions.

GETTING THIRD PARTY SUPPORT

In other cases – particularly where industrial rail users and customers want to own their own assets, terminals and ports – rail value is being increased through the support of supply chain management solutions providers who are increasingly starting to invest in infrastructure to support their customer's needs.

"In order to deliver the right value proposition to our customers, we often own the assets that we use to help our clients move their products efficiently from point A to B," noted Nathan Savage, Sr. Vice President and Group Leader at Savage Services, a US-based global logistics and material handling organization. "In some cases, we own the terminals but in others, we've entered into joint ventures with our customers to ensure that we're operating as part of their team and delivering a seamless solution."

DRIVING EFFICIENCY TO ENHANCE VALUE

One area that Savage often sees customers struggle with is non-core processes and logistics requirements that are either managed inefficiently or that could be improved to drive incremental value for the organization. "It's much more than just managing a supply chain – it's about finding the efficiencies that can, in turn, increase the yield of the asset thereby driving incremental value," added

Mr. Savage. "We are always asking ourselves how we can increase velocity, efficiency and safety in a way that both reduces costs and helps our customers do better."

For rail operators and owners, these types of supply chain management and logistics companies can help deliver renewed value across the asset. "The railroad is often quite effective when it's about the long-haul, but it's what you do at the first mile and the last mile that really makes the difference – the industrial switching, the movement of the locomotives, the safety and efficiency of the loading and unloading – it's all about getting those trains back out on the line as quickly and safely as possible which, ultimately, is a win-win for everyone involved."

At the end of the day, Savage, Yeros and Shuba all seem to agree that – while the rail sector environment is often becoming more complicated, there is more value to be harnessed from freight rail assets. "You can't shy away from complicated situations because, oftentimes, those are where the greatest value are to be had," added Mr. Shuba. ■



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Nathan Savage, Sr. Vice President and Group Leader, Savage Services