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Brightline's options less clear than its need for capital

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With a cash flow of negative $6.8 million per month, the money-losing parent of the Brightline train service must look outside passenger revenue for a financial lifeline, said Ozgur Ince, a finance professor at the University of South Carolina.

After Virgin Trains USA abandoned a stock sale last week, it's unclear where the parent of Brightline will turn next to raise much-needed capital.

What is clear from the privately owned passenger railroad's financial statements is that it needs a source of funding. A cash infusion could come from a large loan, although that has proven elusive. Or additional investment might arrive from billionaire Richard Branson's Virgin Group.

Despite growth in ridership, Brightline's revenue from fares remains below projections. Financial experts say it's unclear how long Virgin Trains USA can continue to operate after putting the brakes on a stock offering that would have raised nearly $500 million.

Virgin Trains has said it has plenty of financial options, although it hasn't offered details.

"As we explored a public offering, a number of alternative financing sources became available that allow us to keep the company private and meet our growth strategies," said Ben Porritt, senior vice president of corporate affairs for Virgin Trains USA.

With a cash flow of negative $6.8 million per month, the money-losing parent of the Brightline train service must look outside passenger revenue for a financial lifeline, said Ozgur Ince, a finance professor at the University of South Carolina.

“Their cash position looks very precarious,” Ince said. “With only $273,000 in cash and cash equivalents, they really needed the $500 million or so cash infusion from the IPO.”

Richard Rampell, a Palm Beach CPA and former board member of the RailAmerica freight line, also sees financial trouble down the track.

“At this rate, they could last maybe a year,” Rampell said. “Then they’re going to be in big trouble unless they can get some more capital.”

Ince and Rampell reviewed Virgin Trains USA’s publicly disclosed financial statements at the request of The Palm Beach Post.

Brightline said passenger counts totaled 159,586 in July, August and September, well above the 106,090 passengers the rail line reported for the second quarter.

Meanwhile, the company said ridership topped 60,000 in October and 80,000 in November, putting Brightline on pace to exceed 500,000 passengers for its first full year in service. Still, its trains have many empty seats and ridership will fall well below the 1.1 million riders that Brightline predicted for 2018.

“Ridership continues a steady trend upwards consistent with our projections,” Porritt said Monday.

Virgin Trains had hoped to raise net proceeds of $467.8 million in the IPO scheduled for last week, but investors reportedly showed only tepid interest in the issue. The company has $700 million in debt, and Brightline missed two 2018 deadlines to raise $1.15 billion in a sale of tax-exempt bonds.

Meanwhile, Virgin Trains is looking to borrow $2.3 billion to fund its expansions from West Palm Beach to Orlando and Tampa, and also for a proposed line connecting Los Angeles and Las Vegas. Virgin Trains told securities regulators that it was seeking a one-year bridge loan for $2.3 billion but had yet to secure a commitment from a lender.

Ince said the scotched stock offering could send a warning sign to lenders.

“With the IPO now withdrawn, it may be more difficult to find lenders, which would jeopardize their expansion plans,” he said.

Brightline’s vision always has hinged on connecting to Orlando and ferrying millions of travelers between South Florida and Central Florida. However, the company continues to postpone the expansion.

In a regulatory filing this month, it said Orlando service would launch in 2022, although Virgin Trains USA said it had yet to hire contractors to complete the work. That means an influx of revenue from more passengers remains three years away, and requires a substantial investment.

One lifeline could come from Branson’s Virgin Group, Ince said — it was scheduled to invest $40 million in the IPO. Meanwhile, Virgin Trains parent Florida East Coast Industries invested $56 million during the first nine months of 2018.

The Brightline service launched between West Palm Beach and Miami in 2018 with the ambitious goal of proving the viability of for-profit passenger trains. But Rampell was skeptical that the service could continue to operate without government support.

“This is going to end up having to be subsidized, ultimately,” Rampell said.

That scenario worries opponents of the train.

“My concern has always been that the federal government would just prop this up,” said Dylan Reingold, Indian River County’s attorney and an outspoken opponent of the Brightline service.

Some federal officials already have been critical of government support of Brightline that has fallen short of a full subsidy. For example, U.S. Rep. Brian Mast, R-Palm City, last year called the federal Transportation Department’s approval of $1.15 billion in tax-exempt bonds for Brightline a “serious abuse of taxpayer dollars.”

Virgin Trains USA said its cash balance was $48.7 million as of Sept. 30, down from $169.1 million on Dec. 31, 2017. Its operations are awash in red ink: Through the first nine months of 2018, Brightline posted losses of $87 million on revenue of just $5 million.

Brightline has the backing of two billionaires, Fortress Investment Group's Wes Edens and Branson. Even so, many analysts have seen the rail service's prospects for profitability as uncertain.

Fitch gave Brightline's late 2017 bond issue a grade of BB-, a junk-bond grade that reflects "an elevated vulnerability to default risk."

The sheer novelty of a for-profit train service makes Brightline difficult to handicap, Stacey Mawson, director at Fitch Ratings, told the Palm Beach Post last year.

"It's just a completely new asset with real uncertainty around demand, willingness to pay, price level," Mawson said.

Others take a more pessimistic view of Brightline's prospects.

"There's no compelling reason to believe it's actually going to work," said Matt Fabian, a partner at Municipal Market Analytics, a bond research firm in Concord, Mass.

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