



Has Branson Pulled Off The Great Train Robbery?

Failed Brightline/Virgin Trains USA IPO means licensing payments with no investment risk.



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Turns out there is a reason that Sir Richard Branson is a billionaire. Through his Corvina Holdings Limited and various Virgin affiliates, Branson may have just pulled off the modern day equivalent of "The Great Train Robbery" without breaking any laws but instead by taking business advantage of the desperate Brightline high speed train project currently running in South Florida. I wrote a [blog post](#) three years ago about what an imbecilic idea it was for private equity fund managers to be proposing a private, for-profit, high-speed passenger train between Miami and Orlando. Why? I have spent over twenty-years in corporate and project financing and I have always been intrigued when well-educated people (especially managers of other peoples' money) make very

obviously misguided investment decisions. I've been mesmerized by books on the mortgage-backed securities fiasco and the group-think and lack of simple due-diligence that led to it. Candidly, to call the passenger train project (originally marketed as "All Aboard Florida", then "Brightline" and now licensing the name "Virgin Trains USA") "half-baked" does a disservice to undercooked food everywhere.

Now, back to that "Virgin Trains USA" licensing part. After failing multiple times to raise the necessary capital needed to build out the planned train route to Orlando through other means, Brightline tried a new approach to sell stock to the public markets through an initial public offering. As of yesterday, that effort also failed. However, in what I viewed as a thinly veiled effort to distract away from the actual financial losses and ridership misses that Brightline was required to disclose as part of the attempted IPO, a huge press push was made over the much ballyhooed rebranding of Brightline to "Virgin Trains USA." Many were led to believe (by no accident) that Virgin, the holder of the ubiquitous brand and the operator of passenger train routes in the UK, had made a validating "investment" into Brightline just in time for the IPO. After all, if Virgin, the conglomerate run by Sir Richard Branson with extensive knowledge of the transportation industry was making an investment in Brightline on the same terms as the public in the IPO, why wouldn't one invest? Well, the public markets didn't buy it and the IPO was "delayed." Strike five or six in the financial markets for those of you still counting.

The devil in the details (as revealed in the required SEC IPO disclosures) was that Virgin was not taking any meaningful financial risk and there was

absolutely no economic validation of the investment opportunity. To the contrary, Virgin was (and is) simply getting paid for the right of Brightline to make investors think they were investing in something other than the already failing Brightline trains run by the same Brightline people. Any actual investment by Virgin was conditioned upon either the success of the IPO or the success of the still necessary (and still extremely unlikely) 2019 bond offering (or other capital fundraising whereby Brightline successfully raises the roughly \$2.2 billion shortfall they project even after a successful \$500 million IPO). As of yesterday's failed IPO, Virgin has no current or foreseeable obligation to put any money into this fool's errand and Brightline is still short around \$2.7 billion.

Even Donald Trump might blush at a deal where Branson puts up absolutely no capital but is paid to paste his brand on trains that serve as slick moving billboards in densely populated South Florida—all while Fortress, the financial backer of Brightline, continues to lose millions on the underlying operations. The still undisclosed base payments to Virgin are in no way conditioned upon the underlying profitability of Brightline. As Brightline continues to hemorrhage cash, Brightline also pays to rebrand using Virgin's name and Virgin gets paid to advertise its brand for so long as those trains continue to run. It takes me back to Great Train Robbery in England where the majority of the money was never recovered. Well played, Mr Branson, well played.

