

"A volcano of opportunity that's ready to explode"

Anthony D. Kruglinski recently resigned as vice president of the Irving Trust Co. to start his own company, Railroad Financial Corp., in Princeton, N.J. Beginning next month, Kruglinski will write regularly in this space on matters relating to railroad equipment financing.

Kruglinski is already well known to many of our readers: He was master planner of the several railroad conferences which Irving Trust and Railway Age have co-sponsored in recent years—most recently, Equipment Finance 1988 held in St. Louis last June with 400 industry leaders in attendance. The next such conference, Equipment Finance '89, will take place in Montreal April 9-13 with a broad base of sponsors.

The following exchange is designed to acquaint our general readership with our new financial columnist:

RA: What attracts a banker to the railroad business?

KRUGLINSKI: After 14 years at Irving Trust Co. both as counsel and a railroad lender, I'm ready for a new challenge. The opportunities in this industry are enormous. The investment community's generally held belief is that the railroad industry is a stodgy, immobile monolith with returns on capital that are below other industries and likely to stay that way. That's wrong. I believe we're sitting on an active volcano of opportunity that's ready to explode.

Years of financing regionals and short lines has proved to me that the railroad business can be run safely and efficiently at operating ratios that allow survival despite the staggering debt that's often necessary to finance a spinoff. As these spinoffs pay this debt off or refinance and begin to look more like normal companies, tremendous value is being created. Imagine what the Class I's could do with similar cost advantages! I'm convinced that this is the industry to be in today.

RA: How do you explain the regional railroad failures?

KRUGLINSKI: In most regional and short line failures, one or more ingredients for success has been missing. In some you have good operating people who have never run a business before and who don't realistically approach the need for adequate capital. Or you have a lender that has been convinced that existing traffic won't be diverted or, even worse, that traffic will be won back from other carriers or trucks. In some cases, it's as simple as paying too much.

RA: How do investors avoid bad deals?

KRUGLINSKI: First, make a realistic appraisal of your talents and abilities. For instance, if you're a railroad operating person, don't make the assumption that you're an expert in the high art of successfully marketing rail transportation services. Assuming that you come to the conclusion that you don't know everything, marshal the rail industry talent you need and seek advice from an attorney, consultant or advisor who has been involved in similar transactions that actually closed. Ask what happened to these transactions. Did they succeed? If not, why not? If you get this far, the professional you're talking to will probably have a line on sources for the other components of your deal.

RA: Are railroad deals really that tricky?

KRUGLINSKI: Put that question to the hundreds of investors who poured millions of dollars into preparing bids for properties that they never won, or even worse, won and never closed. Even at that, they're luckier than those that closed on properties that subsequently failed.

RA: Any final investor advice?

KRUGLINSKI: Don't be greedy. Greed can kill a deal. My favorite quote on greed comes from one of the more successful regional railroad investors: "Pigs get fed. Hogs get slaughtered."

RA: What types of business will Railroad Financial Corp. pursue?

KRUGLINSKI: One of our first customers is a major investment bank that has retained RFC to advise it on railroad matters generally. We'll also be working for a large regional in arranging financ-

ing for a new equipment purchase and a new locomotive leasing company that will be using us for valuations and used equipment sourcing.

RA: What about investment opportunities in the industry generally?

KRUGLINSKI: That will probably be our main focus. At the present time there is more venture capital available for investment than I've ever seen. You used to hear fund managers tell of millions of dollars available for deals; now they refer to billion dollar funds. We hope to act as financial advisor or principal in several regional or short line transactions during 1989. I'm also high on investment opportunities in the railroad manufacturing and supply industry.

RA: Are you seeing many deals?

KRUGLINSKI: Anyone that has anything to do with lending money or raising capital will always be up to his or her neck in proposals. The trick for everyone concerned is not wasting time with unrealistic projects or approaches.

RA: How do you handle such proposals?

KRUGLINSKI: Our first rule is to talk to everyone about everything—regionals, short lines, equipment deals, leveraged buyouts. Since we only do railroads and rail related projects, we want to hear about all the opportunities that are out there. Once we've seen or heard a proposal we can begin to add value. That value may be telling the prospective operator that his or her assumptions are flawed and that the deal as proposed won't fly. At this point we'll probably suggest corrective adjustments and propose one or more ways that we can become involved. It's then up to the customer to decide whether or not to take our advice and on what level we can work together.

RA: You will continue your Railroad Financial Conferences?

KRUGLINSKI: Most definitely. Rail Equipment Finance '89 will kick off in Montreal for four days on April 9. We're also planning a conference on railroad supply topics for June in Chicago and one we're calling Railroads for Non-Railroaders in Chicago in August. ■