

A BRE A Point of View on Value



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**BREA's Capital Acceleration Program:
Unlocking Capital and Productivity Savings through
an Analytical Approach to Real Estate Strategy**

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January 2010

Proprietary

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“Working with BREA, we were able to unlock over \$70 million in cash and productivity savings, most of which happened within 9 months.”

Major Northeast Utility Company

Introduction

This **Point of View on Value** discusses how the BREA Capital Acceleration Program uses detailed and fundamentally unique analysis and implementation techniques to **unlock \$30 to \$70 million in cash and ongoing productivity from your Real Estate portfolio**, with benefits accruing in as little as 6 months.

Problem Statement

Today’s economy is placing unheralded pressures on energy sector executives to find capital and productivity savings:

Rate Pressure – Politicians are under extreme pressure to keep costs down. And, the recent political noise about large corporate profits threatens energy sector companies’ valid claims to rate increases.

Declining Payments – Businesses going out of business and the declining economy constrain payments, particularly from consumers. The contracting economy has constricted growth in revenues.

Pressure to Invest – Current cost structures and service levels cannot be maintained without investment in SmartGrid technologies. Similarly, green energy will not come without the necessary investments. But, the development and deployment of those technologies are slow because of tight capital markets and competing capital demands.

Excess Capacity – Structural changes driven by the economy leave most energy companies with excess real estate capacity, both an opportunity and a current cost.

Previous Options are Insufficient

Downsizings – Most companies have cut staff and other costs to the bone. This alone merely addressed declining revenues. It has done little to unlock large sums of capital for redeployment.

Management Consultants – Great at identifying productivity ideas, but these firms lack the ability to unlock the cash imbedded in real estate assets. Not only that, they have an incentive to raise ideas that create more consulting work, read “more cash out the door.”

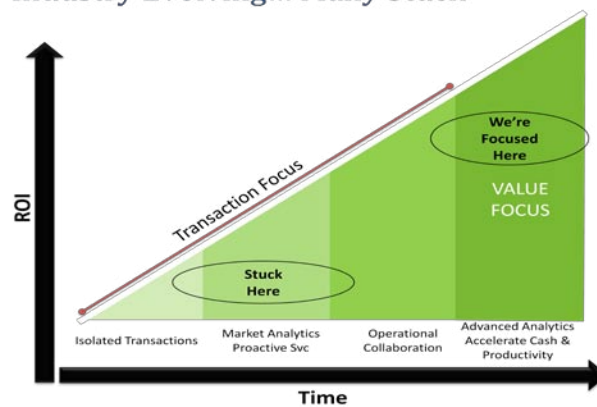
Productivity Initiatives – Important for ongoing improvement, productivity teams often lack the expertise to redesign work space and they likely haven’t looked at reconfiguring real estate, since many think the cost to implement precludes making major changes now. In this real estate market, this simply isn’t so.

Standard Real Estate Firms – Most real estate firms say they’re strategic but what they’re really focused on is *executing* transactions, or, at best, conducting mark to market analysis on your

“Lori Brown is the kind of difference maker who has saved us significant money and helped us look around corners to our future needs and creative options. She’s highly responsive and committed to doing what’s best for us. At a time when we’re growing so fast and our needs are fluid, aligning with a small firm has worked well for us.”

Mary Tolan

Industry Evolving... Many Stuck



portfolio. Illustrated in the diagram to the left, these approaches leave the obvious and critical link to business operations behind. Often, clients execute an isolated transaction to the actual detriment

of overall productivity or the value that could have been unlocked for shareholders with a broader view.

What’s needed is an option that brings together the expertise, on one team, to work across organization boundaries to unlock the cash value in the current real estate portfolio, but do so in a way that improves productivity(for example, windshield time)... all with minimal capital expenditures.

BREA’s Capital Acceleration Program is the Solution

Identify Market Value Opportunities

Unlike traditional consulting firms, who will spend many weeks analyzing everything to find your productivity savings, BREA starts with analyzing the real estate portfolio to find the pockets of opportunity. During this analysis, we uncover brownfield opportunities, lease renewals that are vulnerable, and real estate holdings that have substantially improved in value (even in this tough market). But, before we act on these opportunities, we link back to the business to find optimal locations, work strategies and work force changes that must be linked to the market opportunity to set the right course.

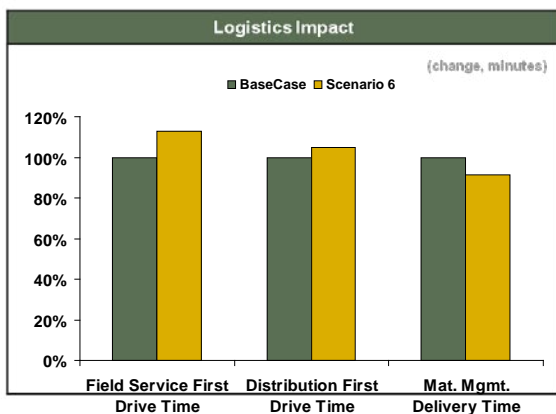
Productivity Analysis Opportunities

Working with business unit executives, we conduct several core analyses:

Excess Capacity Analysis – We will conduct excess capacity analysis across sites, by functional area, and by business process. This unique analysis allows us to uncover opportunities to combine workers and reconfigure space around “natural work teams,” further increasing the impact of our strategy.

Productivity per Square Foot Analysis – We analyze productive output by business unit by square foot and then break that down to output by function. With this fine grained analysis, we are able to identify hidden best practices, so that alternative workplace strategies and space standards may be set at new, but achievable levels of performance. We will also compare these statistics to our view of best practices, often consulting with a world class architecture firm to set the right standards as a foundation for our new strategy.

Service Chain Optimization – Many energy sector firms have operating models that executives use to plan space, equipment, inventory, and service levels, but, rarely do these operating models allow real estate locations to “float” as unconstrained parts of the model. Further, rarely do these models integrate market values into a scientific view of where to sell, move, relocate, or enhance real estate to maximize productivity. BREA brings the expertise to model field work forces, optimize traffic and identify optimal locations to maximize field productivity and customer service levels. This analysis is then integrated with our Mark to Market Analysis to produce the optimal locations that unlock capital AND improve productivity.



Field Service and Distribution (\$ '000s)			
Segment	Base	New	Change (%)
Field service first drive cost	522	652	+ 18%
Distribution first drive cost	822	807	- 3%
Total FS cost	2,670	2,841	+ 6%
Materials Management			
Total number of shipments	15,426	12,522	- 19%
Total cost(\$ '000)	1,753	1,196	- 32%
Jobsite delivery cost (\$ '000)	686	657	- 4%

Prioritized Projects by Net Economic Value

Leveraging the Pareto Principle, we identify the net benefit of various options. Our alternatives uniquely include not only market values, but also excess capacity analysis, productivity analysis, and, where appropriate optimized work models. We layer over our options alternative work force strategies, and then we calculate the net economic benefit. The strategies will be staged into realistic chunks of work that are then prioritized by net impact first.

We then define an implementation plan targeted to achieve 60% of the net benefits within 6 months and 80% of the net benefits in 9 to 12 months. By focusing on the “80,” we find that we achieve over 100% of the benefits. This flows from the simple truth that doing the fewest possible things to achieve change normally allows management and team members to focus on doing those things well.

FS/MM Scenario Impact – Most likely value ¹ (\$ '000)						
Scenario	Transaction Value	CapEx Savings	O&M Savings	One Time Additions	NPV (5 Year)	Composite Risk Level
1	3,697	2,064	921	52	6,631	Medium
2		1,104	3,795	52	8,545	Low
3		5,477	876	52	9,999	Medium
4		2,064	450	411	5,801	Medium
5		460	3,380	411	7,127	Low
6		7,535	(354)	52	10,827	Medium

CORP Scenario Impact – Most likely value ¹ (\$ '000)						
Scenario	Transaction Value	CAPEX	O&M	One Time Additions	NPV (5 Year)	Composite Risk Level
1	16,018	7,283	9,277	14,390	18,187	Medium

DO Scenario Impact – Most likely value ¹ (\$ '000)						
Scenario	Transaction Value	CAPEX Savings	O&M Savings	One Time Additions	NPV (5 Year)	Composite Risk Level
1	3,969	4,296	2,212	1,353	9,124	Medium
2	921	3,606	2,260	1,825	4,961	Low



Summary

BREA is uniquely focused on shareholder value. We bring a depth of analysis unmatched in corporate real estate, the experts to bring the insight, and the change management disciplines to get everyone on board to achieve dramatic benefits.

Energy Sector companies can take a big leap forward working with BREA. Together, we can unlock \$30 to \$70 million in capital and productivity savings – fast. We can execute on those transactions in this marketplace repositioning you on a new low cost, high productivity strategy for the future.

There will not be another time like this for decades. Let's take advantage of the economic change, unlock cash and productivity, and fund the initiatives that will take your company forward.

Find out how. Call Brown Real Estate Advisors to set up a meeting with Lori Brown.

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