
After Renaissance, Retreat – Now What?

Can the North American Railway network
really “Pivot to Growth”?

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All Star Version

2024!

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5+ Enduring (?) Railroad Competitive Advantages

1 Labor Advantage
(ex: Double-stack LA-Chi – or Rupert-Toronto)¹

2 Fuel Advantage (2A)
(4:1 ton/mile; AAR)² – So 2B is **EMISSIONS**/Environmental Advantage (see...WMRT, Unilever, etc.)

3

4 Infrastructure Advantage
(after the IHS buildout; user-pay and capex to support changing logistics patterns – ex: transcon)³

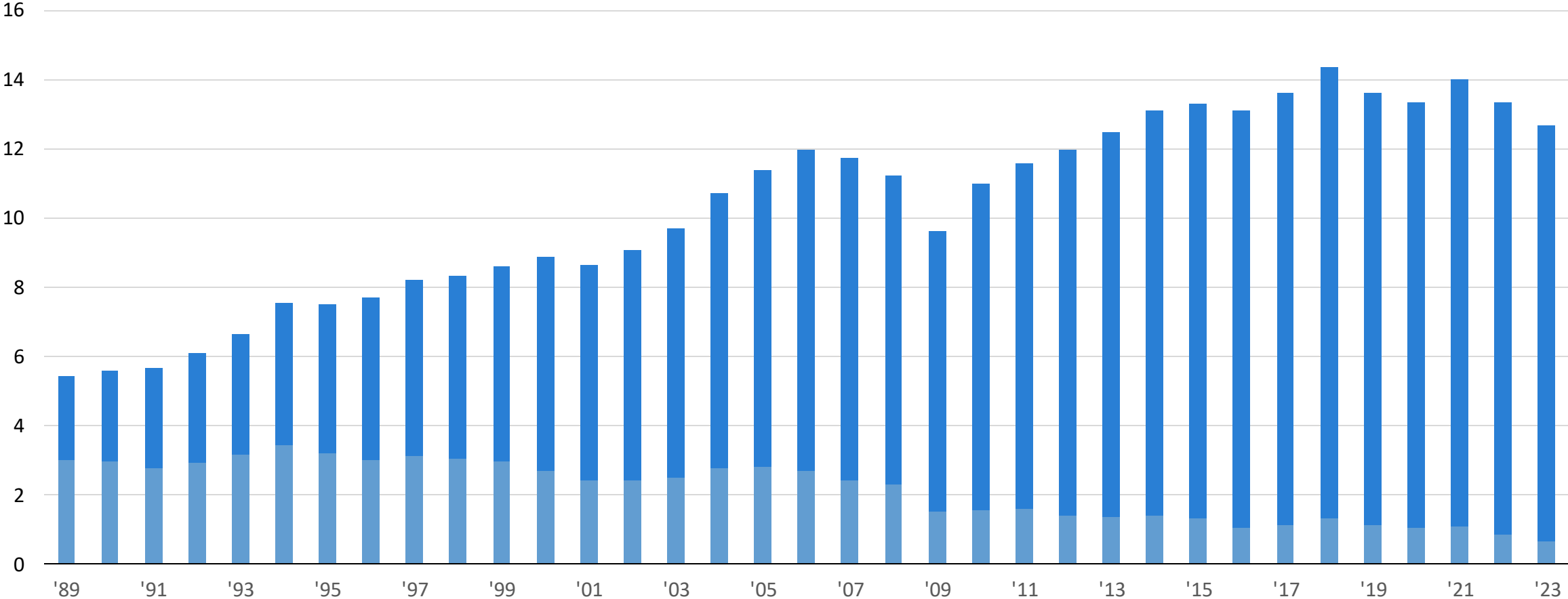
5 Railroads' Excellent Financial Condition, Liquidity, Free Cash flow

? Railroads' Historic Ability to Reduce Expenses in a Known Slowdown (2009, 2020)⁴

1. AV trucking?; 2. EV Trucking?; 3. Infrastructure Bill? (LOL); 4. Newly Added (in response to C19)

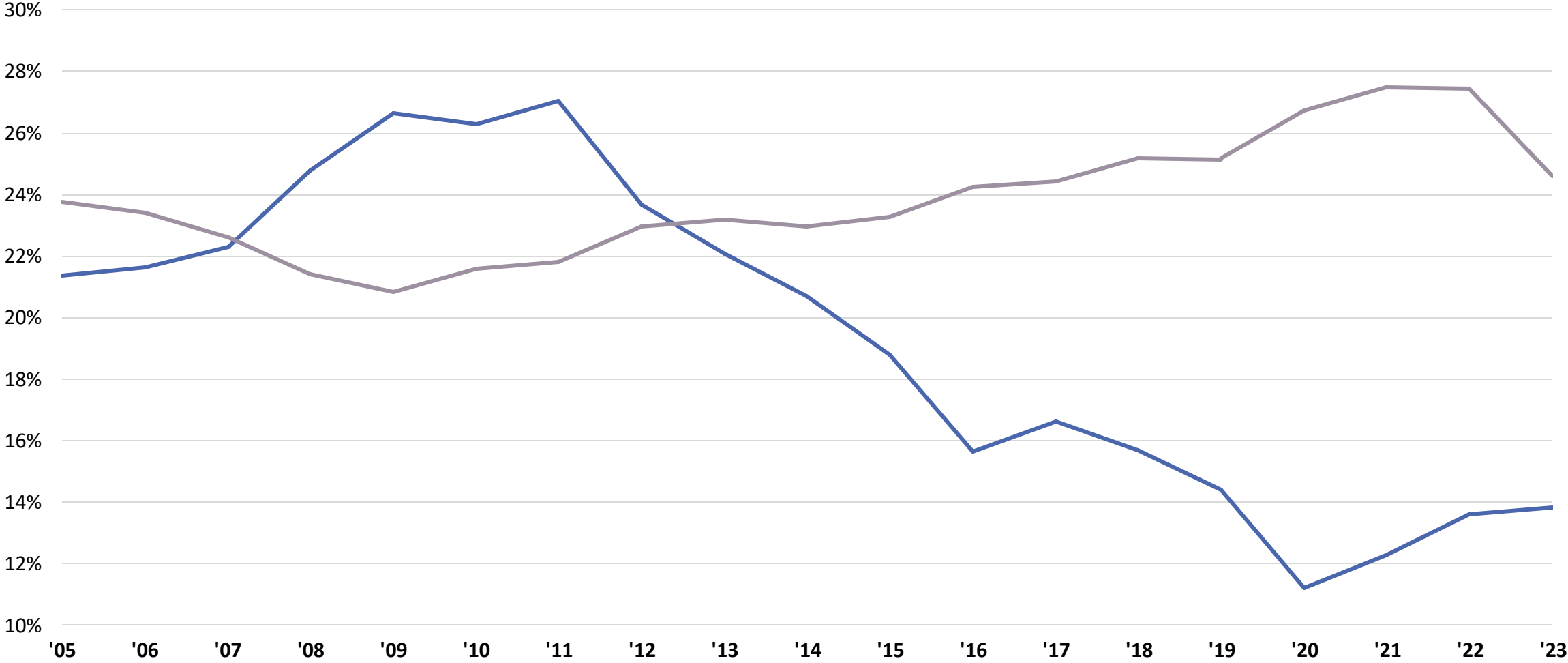
Huge Intermodal Growth

Millions of containers and trailers



Data are originations and do not include the U.S. operations of CN, CPKC, and GMXT. Source: AAR Rail Time Indicators

Coal vs. Intermodal as % of U.S. Rail Revenue



Data are for BNSF, CSX, NS, and UP combined. Source: company reports

Can Rails Change the Narrative After the 3 Big Blows?

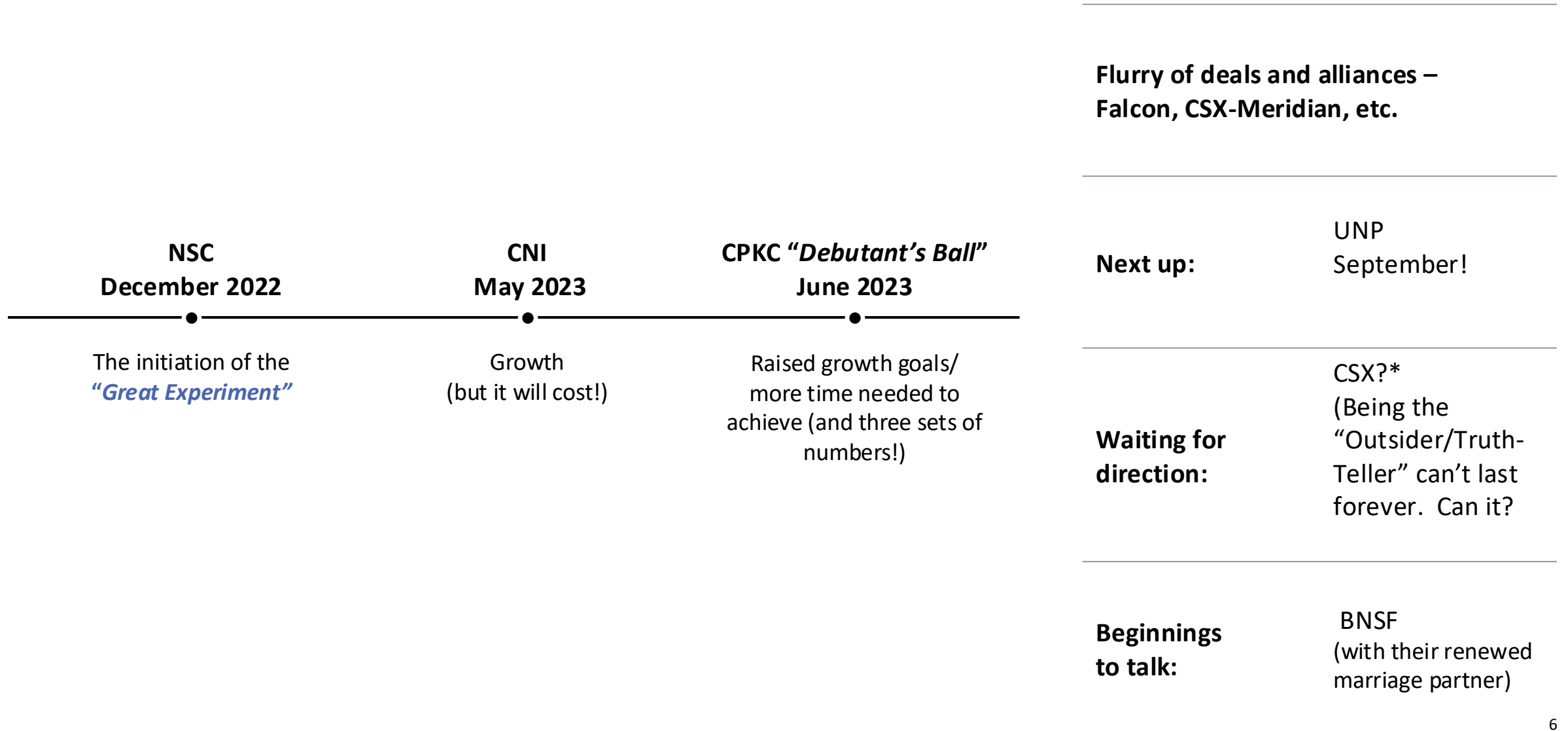
Rails suffer # (3, at least) Big Body-blows over the last 18-24 months (some wounds self-inflicted but not all)

- Supply Chain Crisis/STB Hearings
- *Regular* labor round goes the distance
- East Palestine and ramifications
- (Ancora etc)

So - Are Rails Inept, Greedy & Dangerous?

- NSC Investor Conference (joined by CSX new CEO) – “The Great Experiment”, change in incentives, furlough policy, investment
- CNI Investor Conference – Growth through Investment
- CPKC Debutant’s Ball – Growth through Competition
- Slow but *steady* progress on service consistency & *resiliency*

3 Railroad Investor Conferences Push Growth



NSC, East Palestine (a year later) & the (over?) reaction – Existential Threat?

- NS accident couldn't have been worse timed - or to a more unfortunate carrier
- NS safety history, efforts at Common Carriage, originator of TGE
- Rails are not *allowed* to carry haz-mat, they are *compelled* to do so
- ASCE Grade of B; Big & Consistent Capex
- Bad press continues, reputational hit enormous
- No action (as of now) in do-nothing congress
- Everyone joined the attack:
 - Train length??
 - Crew size???
 - **ECB Brakes (*car-based!*) – your thoughts??**
 - *Corp Greed/share buybacks??*
 - *Don't trust the EPA*
 - *Fix everything but the problem!*
 - *Doubling hot-box detectors price tag \$1-2B*
 - *Etc*
- *~\$1B* (net) spent, excluding reputational and political hits; proposed \$600mm settlement*

*Not sure of the current number! Much bigger!

Why Has Intermodal Underperformed 2014 Optimism Levels?

Externalities

- Port Share Shift East
- Tariffs & Trade Wars
- De-globalization (and recently decoupling)
- Ecommerce/decline of the Big Box (at first)
- THE PANDEMIC!
- The multi-year freight recession/truck capacity and pricing

Why Has Intermodal Underperformed Expectations (part 2); Rail Errors

2018-23 Volume CAGR -1.7% (2014-18 it was +2.5%) Rail IM Market Share dropped from 2018 peak 12.5% to 10.7%⁸ (L.Gross)

- Service & Execution
- Missed opportunities (2018, 2021)
- PSR, initially installed to *improve service & reliability*
 - *Planned reductions (CSX, UNP, ?)*
 - *Speed of implementation at CSX*
 - *Political/shipper/labor reaction*
- The Cult of the OR
- Activists – attacking Intermodal specifically
- NOTE: Canada relatively immune to the US/OR story

Battle Stations! Activists Attack NSC

1

An Ancora-led group (?) plans to run+ a proxy vs Norfolk Southern

- Supposedly \$1B stake, up from less than \$100mm 12/31
- 8 Board nominees, 4 with varying “rail experience”
- Strategy not yet *fully* revealed
- CEO-designate Barber from UPS
- Key man is COO-designate Jamie Boychuck (CN, CSX)
- Activists are 4-0-1 vs. RRs in 21st C
- Hunter Harrison is still dead

2

(Yet another) potential Existential Threat to the Great Experiment

- Return of the Cult of the OR?
- An attack on Intermodal?
- Long term investment strategy given only a year?
- Industry-wide implications

3

Defend the position! Doing otherwise bound to fail (CP, CN, CSX)

Barbarians kept at the Gate this time (for now?) NSC wins on a TKO – Will there be a Rematch??

- *Existential fight for the Great Experiment vs. the counter-revolution of the Cult of the OR*
- Ancora loses the popular vote and the electoral college – the insurgents wins three Board seats (Fahmy, Lamphere, Clyburn)
- Alan Shaw, not Jim Barber, remains CEO
- John Orr, not Jamie Boychuck, remains COO
- Rail HoFer Claude Mongeau becomes Chairman!
- This was a huge battle won, but the status of the war remains uncertain – can be revisited possibly in November and definitely in May, 2025
- NSC cannot lose focus; must show progress – *and improve messaging!!* (Not off to a great start in that regard....)
- The future of the Great Experiment and the policies of other railroads remains threatened, even as this batch of Barbarians held at the gates....

The CN Mothership and the Diaspora

- Vena in at UP
 - after UP’s regulatory relationship deteriorated, its messaging unclear, and disappointing results/not fulfilling “greatest franchise” potential
 - Initial improvements obvious
 - September Investor Day!
- Cory replaces Boychuck at CSX COO
 - “Culture change” & team building
 - Similar pattern as at CN
- Orr at CPKC
- Orr at NSC! Building a team
- The return then retirement of the Old Guard at CN
- Oh, yeah....Keith....forever CPKC?
- Still out there: Boychuck, others....

Brand New (15 months old) Baby Railroad

<p>CPKC “Last Spike” April 14, 2023</p>	<p>Never (NEVER) in doubt – just listen to the STB (and to me)</p>	<p>Congrats to the STB for filtering out the noise (DOJ, Warren)</p>	<p>New Growth Opportunities can help to turn around perception of rail</p>
<p>Rail/Rail Competition</p>	<p>Rail/Truck/Competition</p>	<p>80% Synergies – i.e., revenues</p>	<p>Can the Unicorn bring it home – yes. In 3 years? (A: No – they pushed out the really big numbers to '28)</p>

RailTrends 2023 – Competition & Cooperation

- Increased *rail-to-rail competition* (CPKC)....
 -has unleashed new levels of *cooperation and alliances* (Falcon)
 -and new levels of (planned) entrepreneurialism (ex Quantum)
 -and, hopefully, more partnerships with *short lines* (despite CN/IN?)
- All examples of the *Great Experiment* – IoY Alan Shaw (and others)
- But not without healthy *skepticism* (CSX, analyst panel) – requiring a level of *faith*
- And of course, there was drama: STB/UP, Mexico
- Great audience (STB, Strategists etc)
- 2024 Registration open – November 14-15 NYC www.railtrends.com
- Keith Creel our '24 **RT** *Innovator of the Year*, as he was 10 years ago
- FRONT of the House!

Mexico's Moment – the Economy of the Future, & Always Will Be?

- For rails, since NAFTA it has *always* been momentous
- Heady X-Border Growth – but losing share!
- Near-Shoring is the headline grabber
- However:
 - Pemex support
 - KKR
 - Passenger traffic forced on the freights?
 - Border shutdowns
 - Election (you get my point....)
 - 25% of Latam GDP; 17% FDI
- But – CPKC; Falcon, Tesla – especially now BNSF/JBHunt
- Mexican election surprising in size; US in November, USMCA in 2026
- Modelo Especial!

Short Lines To the Rescue of Class Ones?

Class One service crisis and the impact on/of regulators (STB/FRA) and Legislators

- New focus, data on First Mile/Last Mile (and it ain't pretty!) – made more intense with Reciprocal Switching?
- Service failures are manna to STB concerned about rail market power (price)
- STB use of *common carrier obligations* as a lever (UP/Foster Farms), focused on weekly switches
- Declining Class One carload growth since the 2008-9 Financial Crisis

SOLUTION?

Increased use/creation of Short Lines!!

- Short lines have consistently out-grown C1 in carloads
- Short lines offer tailored, customizable switching services
- Short Lines have better work rules, less severe labor shortages
- Short Lines are looked upon quite favorably by regulators and legislators!
- Watco's Dow and especially Dutchtown Southern (Louisiana/CN) increased weekly switching from 3-5 to 7+ and grew carloads by over *one third* in the first year of operations – win (customer switches)/win (Watco new business)/win for C1 partner CN (more cars for its long-haul business)
- All SLHCs have logistics/switching arms etc

So why is the momentum of C1 strategy seemingly to buy or retake SLs

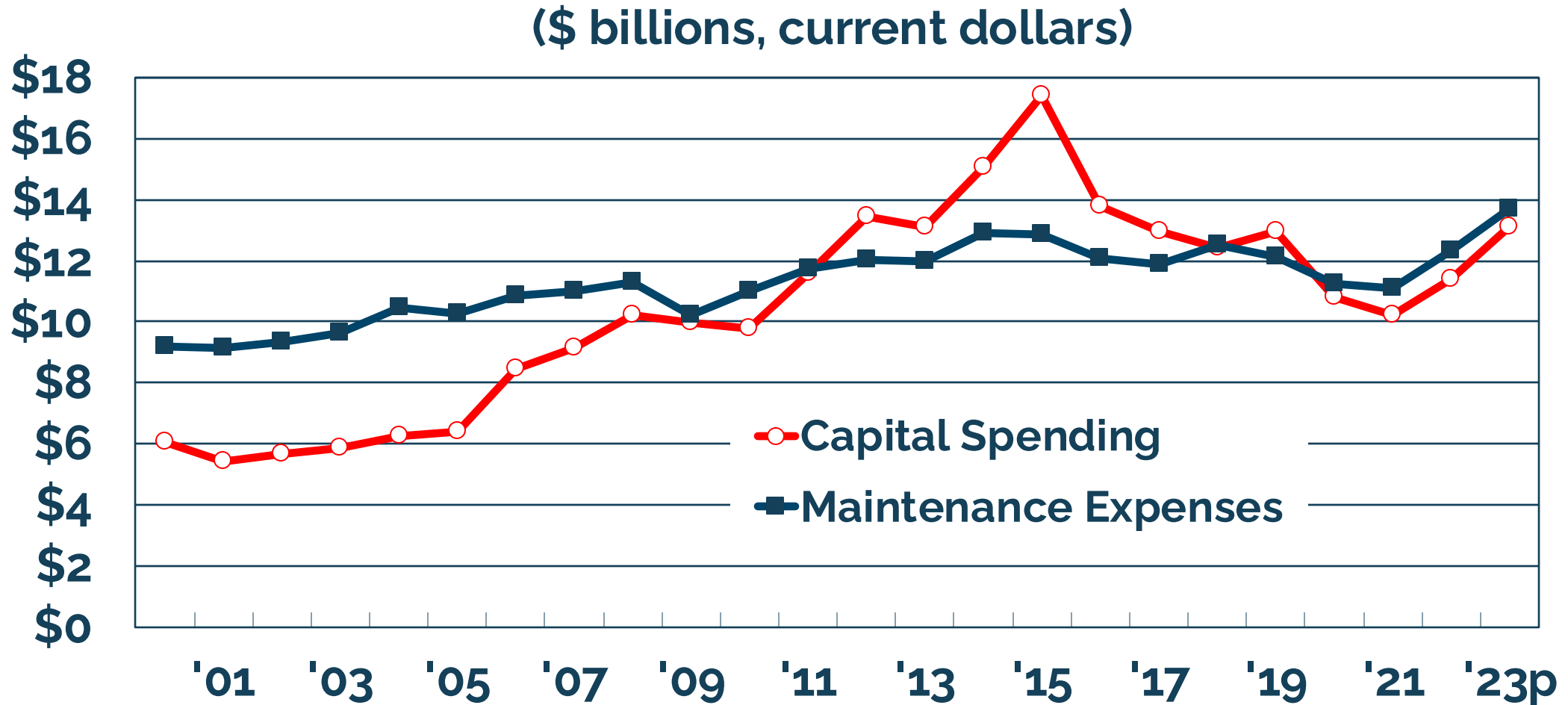
See DMQ/Pan Am/MRL??

- I support a “feed the beast” strategy (looking to extend a C1 market reach – ex CN 2018-21)
- However that should not preclude thoughtful C1-SL partnerships (that solve customer problems!) – ex RailPulse
- *Nonetheless, I see no evidence of C! leadership taking these steps (yet?)*
- *There have been more C1 SL Meetings, discussions (ASLRRRA)*

Regulators, Luddites & Data – DC in the House

- Peak STB post merger?
- Happy retirement, Marty!
- Welcome to the new Chairman, Robert (“the ghost”) Primus; 4-person Board (for now....)
- Reciprocal switching – a “nasty curveball”, but good for analysts – and?
 - Canada sticks to a larger milage-based plan
 - Standardized (and more) data will be useful in the US
 - A tailwind for service recovery?
 - But will a fastball follow the deuce?
- Will the Hatfield (UP) & McCoy (STB) feud finally end?
- The FRA takes the Trident – anti-technology in favor of jobs, beyond their remit

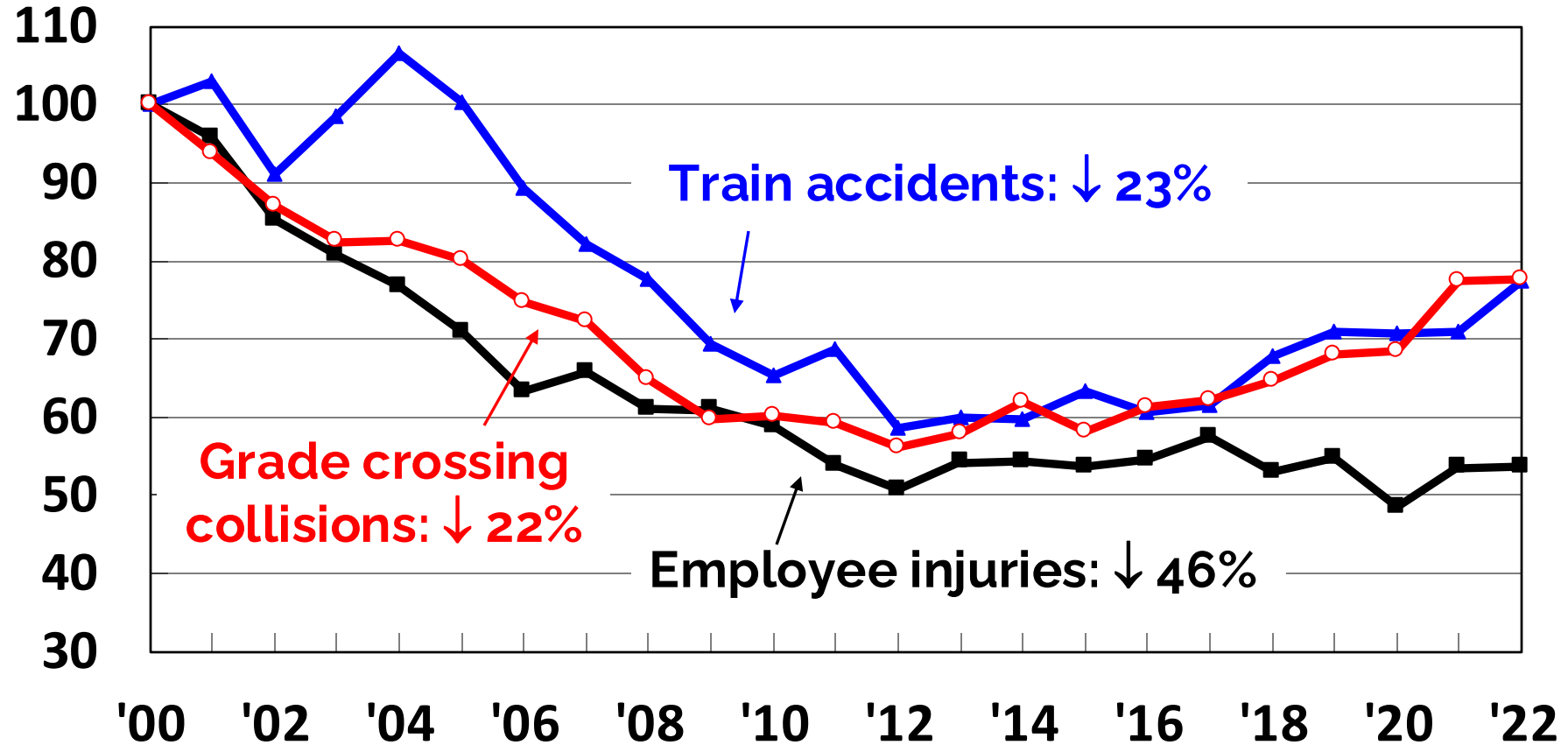
Railroad Spending on Infrastructure and Equipment



P – preliminary Data are for Class I railroads. Source: AAR

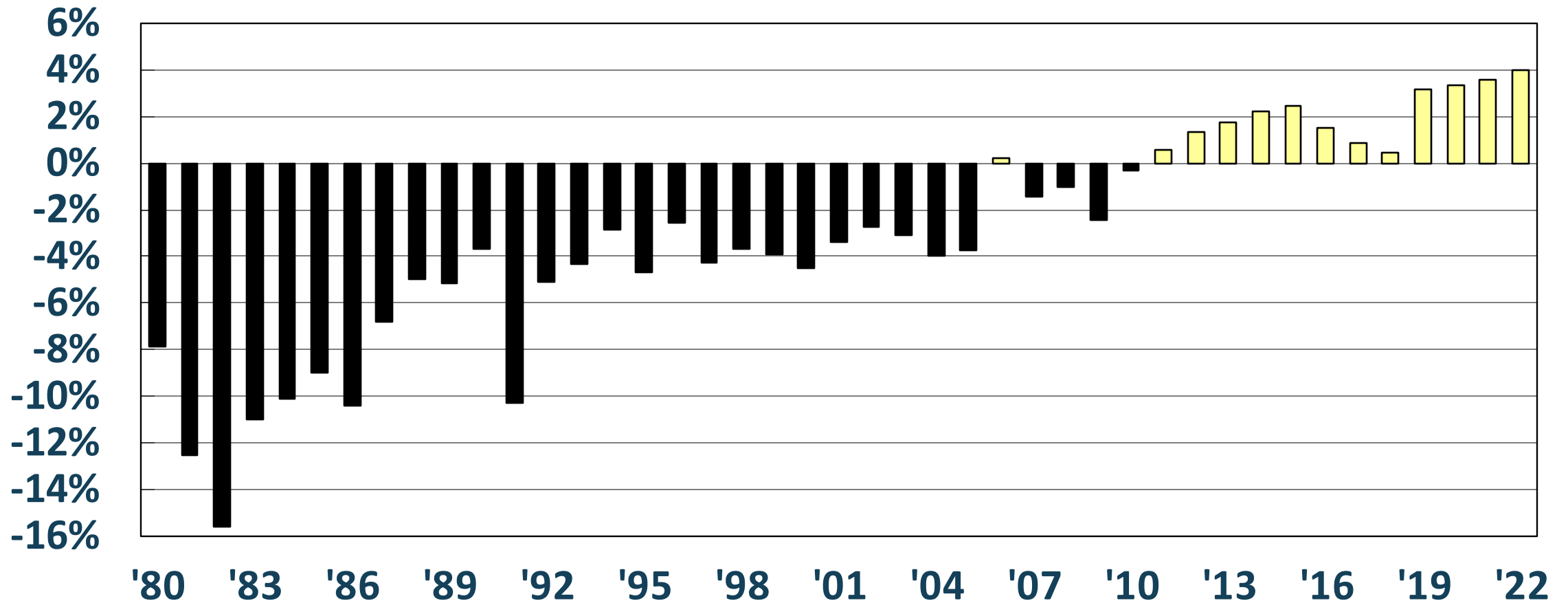
Recent Decade Was Safest Ever

(Index 2000 = 100)



% = change in rate from 2000-2022. Source: FRA

The Spread: Between WACC & ROIC/STB (USA only)



*In 2006, the Surface Transportation Board significantly changed the method by which it calculates the rail industry cost of capital. Source: STB

Return on Investment is Crucial

If ROI > cost of capital

If ROI < cost of capital



Capital spending expands • >

• Lower capital spending

Stronger physical plant; more and better equipment. •

• Weaker physical plant, equipment

Faster, more reliable service •

• Slower, less reliable service

Sustainability •

< • Disinvestment

The Growth Pivot vs the Cult of the OR

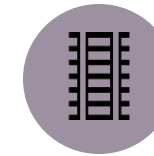
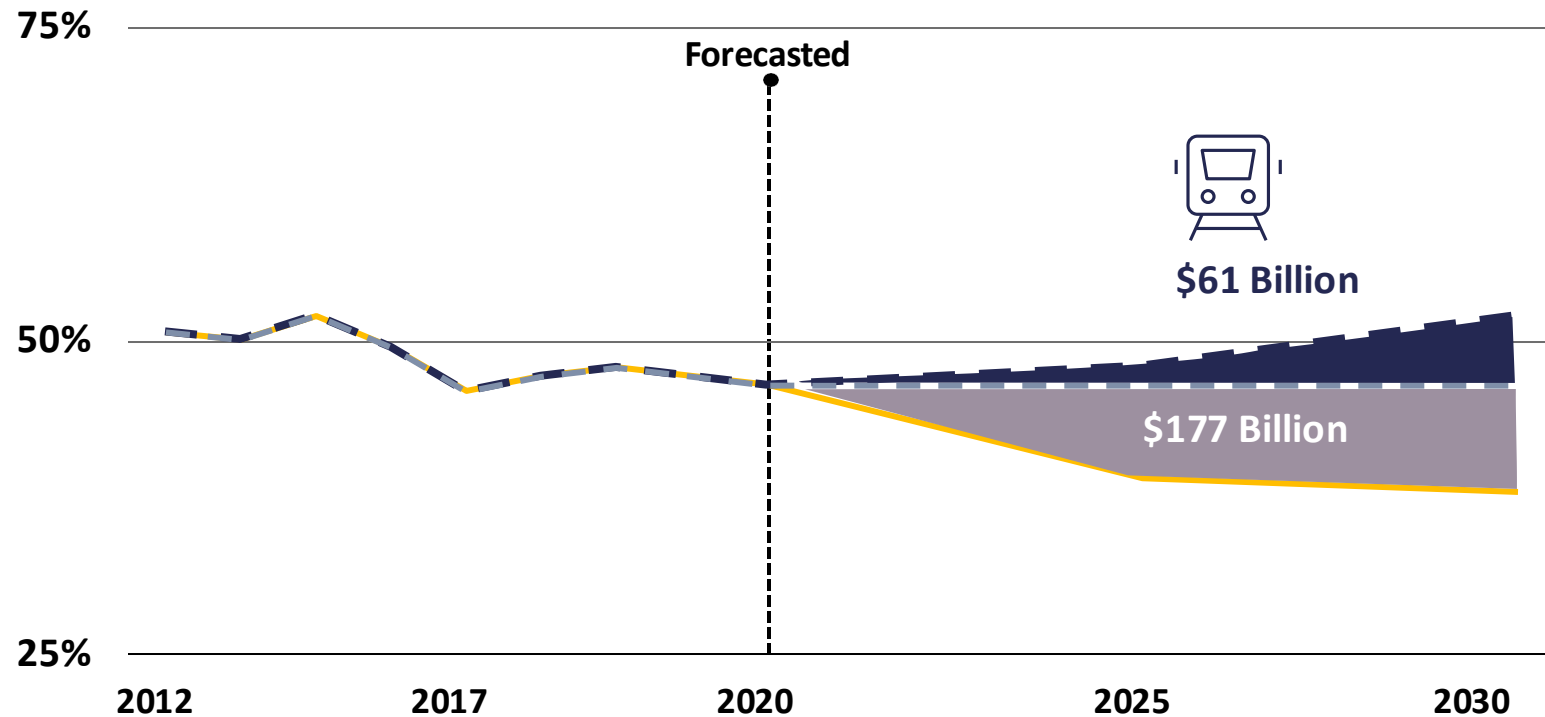
- Rails are back to stability in operations
- Two outliers returning to the pack
- High 50s OR may be new peak performance given new labor contracts
- Gains from improvement from peak margin are increasingly de minimis in terms of earnings/cash flow....
- The ONLY option is Growth
- But gaining share will lead to improvements in revenues, EBITDA – and ROIC
- And maybe even in OR (per Oliver Wyman/STB testimony)
- AND, the OR is “the outcome of a process” (Keith Creel, CPKC, 2014 and 2024 ***RailTrends Innovator of the Year***)
- Short-term investors and activists have targeted Intermodal as an inflator of the OR
- Railroads pivoting to growth in the longest *freight recession in living memory*
- Proxy fights, management pressures and change-outs a threat to long term thinking, resiliency
- The Race is ON!

Risks to the Growth Pivot

- Execution! Talking the talk, now there needs to be walking the walk
- Cooperation friction! Alliances are hard!
- Staying Power! Building trust!
- Changing Supply Chains/Black swans
- Government/Regulation!
 - Tariffs
 - Immigration & Gateway policies Rule of Law (Mexico)
 - Environmental policies not *rewarding* rail – CARB (and “BIG”)
 - Local NIMBY (SCIG, Milton, etc)
 - Commercial regulation
 - Modal fairness – 2-man crews vs AV Trucks
- Weather
- Technology
- *The race between the long & the short term – the CULT OF THE OR*

By using available capacity, railroads could add \$61BN more in growth revenue – with limited capex

Freight market share analysis and forecast by ton-mile



Gaining a half point of share per year delivers growth that by year ten fills current available capacity



Assumes no material technology advancements

■ Rail share
 ■ Rail share with growth
 - - - Maintained rail share

Source: © Oliver Wyman



NARS recognizes

Tony Hatch

with the

**NARS 2019 Person of the Year Award
for his steadfast support of NARS and its
regional associations.**

*Thank you Tony for your guidance, dedication and service
to NARS and its regional association!*

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RailTrends November 14-15, 2024 NYC

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