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***The North East Association of Rail Shippers
2013 Fall Conference: Rochester, NY***

September 24th - 26th



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Rails Beyond Coal – The Dawning of the Domestic
Intermodal Age & the Impacts of “New Energy”
Re-Industrialized Northeast?

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**Green vs Black? The RR Renaissance & “the end
of the coal age”**

NEARS

April, 2013

Future Growth Potential

5 Secular stories (in order)....

- 1-Intermodal – International *and now* Domestic
- 2 –Shale/Oil – Problem and solution?
- 3-Chemicals/Re-Industrialization?Near-Sourcing
- 4 - Grain – the world’s breadbasket
- 5 – Cyclical recovery - Housing
- Other Rail Opportunities exist but in smaller **scale**: The Manifest/Carload “Problem” (hub&spoke) vs. point-to-point “Unitization”/Industrial products/MSW (garbage) /perishables/others/Coal? Exports – “legs”?

Rail Intermediate term volume prospects

ABOVE GDP

ABOVE GDP

- Intermodal/Domestic (++)
- Intermodal/International
- Shale/oil
- Agricultural products
- Export Coal
- Chemicals!

BELOW GDP

- Auto Parts (?)
- Domestic Coal (?)

@GDP-GROWTH

- Autos (+?)
- Lumber (+?)
- Aggregates
- Metals (+?)

UNCERTAIN

- Paper
- Ethanol

Near Term

- Q1 – EPS +30% despite: coal, grain, economy- beats Street expectations
- Q2 – up ~20/20 RRs again beat expectations, reiterate Goals/Targets
- Q3 – Coal takes its toll as cyclical contracts, slightly....
- *Q4- Flattish – a time for “story stocks” (CP)*
- *2013 outlook perhaps a bit more muted- non-coal traffic up 5% or so – THE BRIDGE YEAR*
- End of coal decline? Revitalization in grain? Where are we in recovery? Pricing?
- Cash flow – still “*balanced*” use? Capex will still be supportive of growth segments

Current Issues

- Rails in the Recovery – or in another slowdown? Is 2013 “just another” 2011 or 2012?
- What’s true? *RR (cyclical) traffic or business headlines?*
- *End of the Coal Age?*
- *Capex – Strategic or Tactical plans prevail? \$13B!*
- *PTC*
- After the Rereg Fight what? STB? TSW?
- Govt role –partner? Or preoccupied & broke?
- The Green mantle – two-edged sword....
- PE & Infrastructure – and activist? – funds: back for good? CP....
- New “Golden Age”? Service

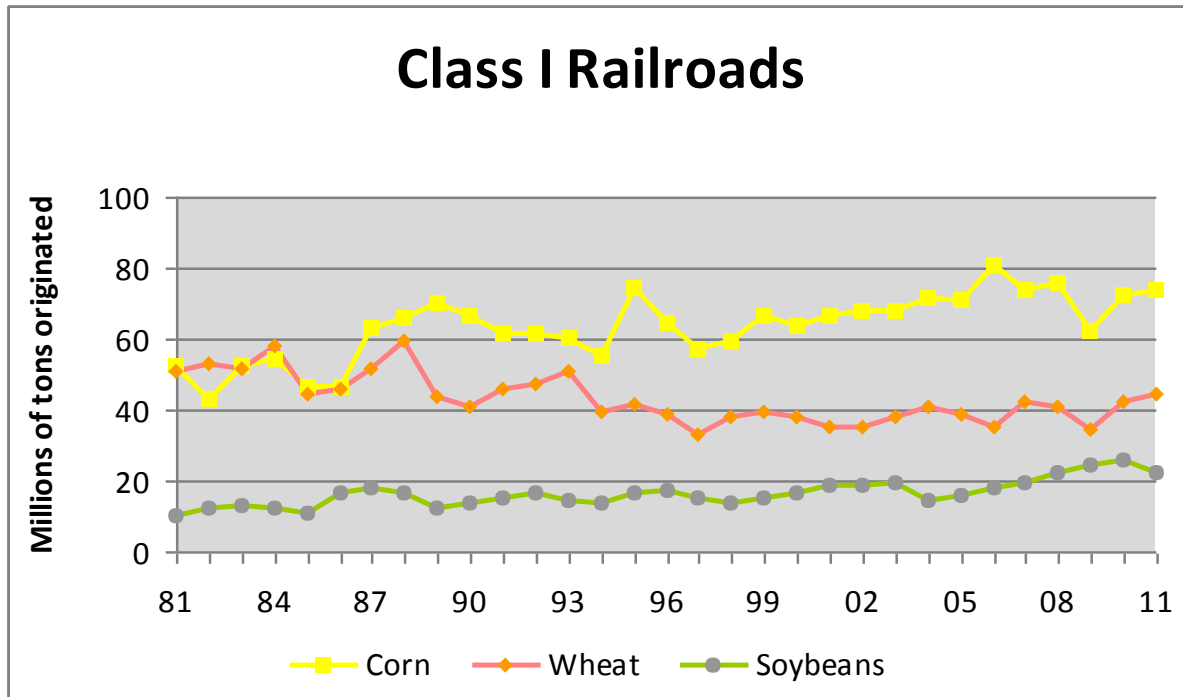
Bridge Year

- End of the coal slide?
- End of the drought?
- Continued slow economic growth
- Improved cyclical recovery in housing & autos
- Shipper capex in chemicals, autos, Mexico
- Rail investment in Domestic Intermodal
- CBR and other shale impacts
- Re-Industrialization

Underlying Themes or “Givens”

- Green is here to stay
- Oil Prices will remain high (price points at \$65, \$45, \$25/bl)
- Governments spending will be problematic
- Infrastructure will be challenged
- Trade will be dynamic but remain strong
- Near-sourcing and in-sourcing remain themes
- Trucking Productivity has peaked
- Driver shortages are a secular/demographic issue exacerbated by govt regs (CSA/HoS)

Ag & RRs – Pattern developing?



Drought!

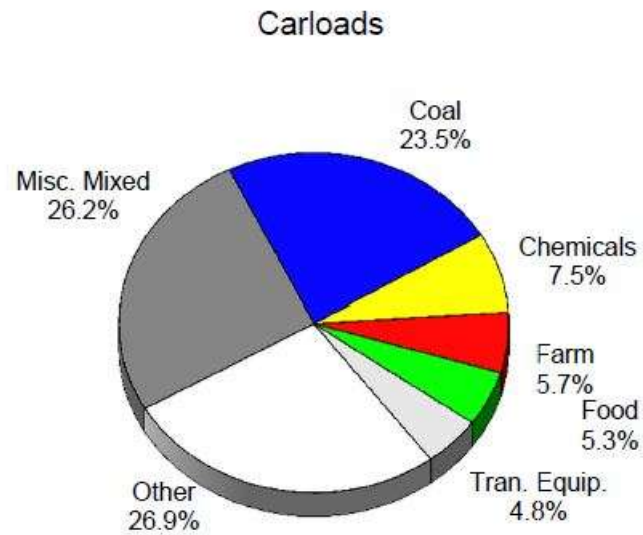
- Grain down 9.5% in 2012, down to 7% RRTcls
- (adding in related materials brought Ag numbers to -4%) – about 12% of average total revenues
- Crop year forecasts? (vs calendar year expectations); corn exports
- “Global growing need for grain” doesn’t always show in car loads – low multiple business?
- Diet; Protein, Urbanization, Rising Incomes, Loss of arable land: ***Yada, Yada, Yada!***
- Impact on the inland waterway system (beans); infrastructural strength no longer US advantage?

Drought! (cont.)

- RR infrastructure (vs water & roads)
- Bakken and other rural development
- CP
- DM&E
- TSW
- “Backhaul Intermodal”
- Ethanol (seen as the ultimate bubble); diversification?
- Reindustrialization – chems & *fertilizers*
- China & Homer
- Lucky Australia

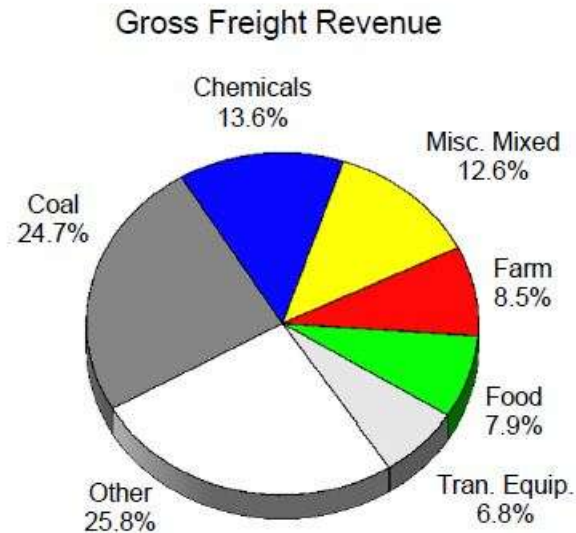
Grain remains important to rail carload base

- 2011...



2011 RR CL Revenues

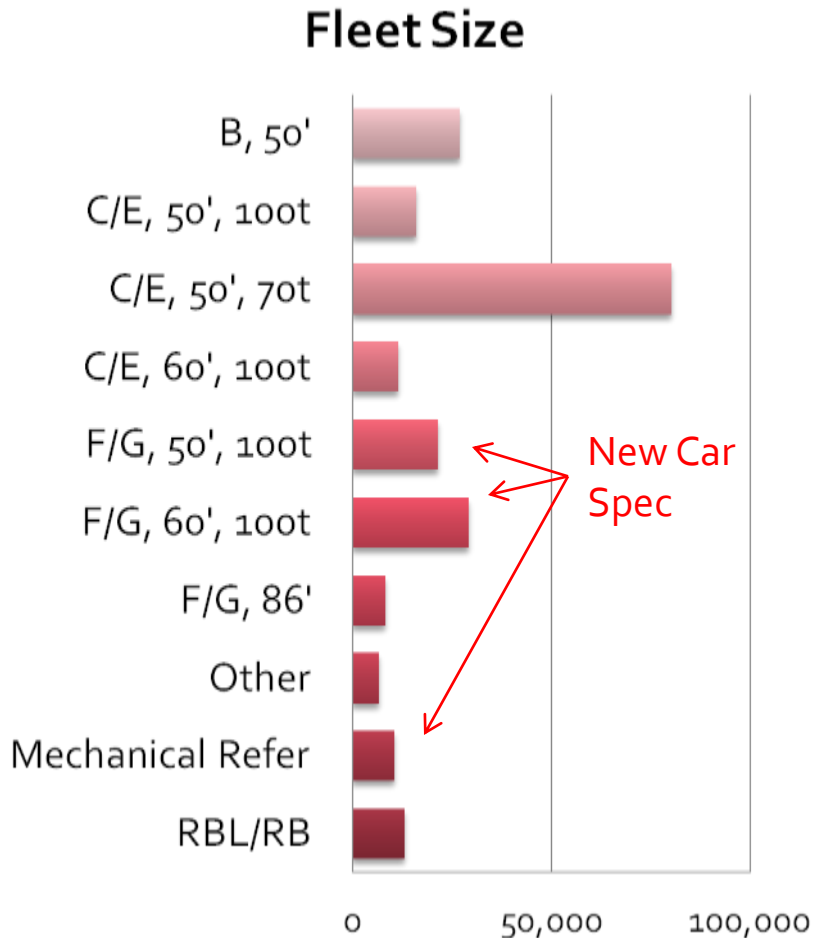
- And a bigger slice of revenues (and of ROI)



For investors, Ethanol is a mess (2005-2012 revenues)

- ZTOT200528184115,679.0010,409,800.00 **\$358,168,578.00**ZTOT200628184147,556.0013,179,408.00\$521,834,080.00ZTOT200728184202,299.0017,946,270.00\$753,395,006.00ZTOT200828184280,447.0025,080,262.00\$1,149,308,886.00ZTOT200928184300,778.0026,914,746.00\$1,181,505,514.00ZTOT201028184393,910.0036,105,239.00\$1,517,061,869.00ZTOT201128184387,689.0035,862,490.00\$1,600,319,710.00ZTOT201228184346,449.0032,182,307.00 **\$1,504,119,108.00**

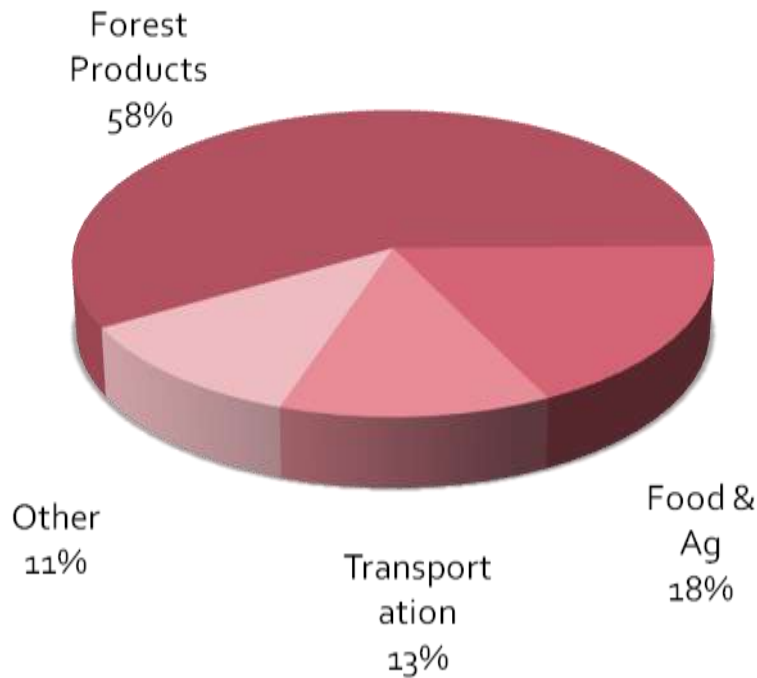
Box Car Fleet



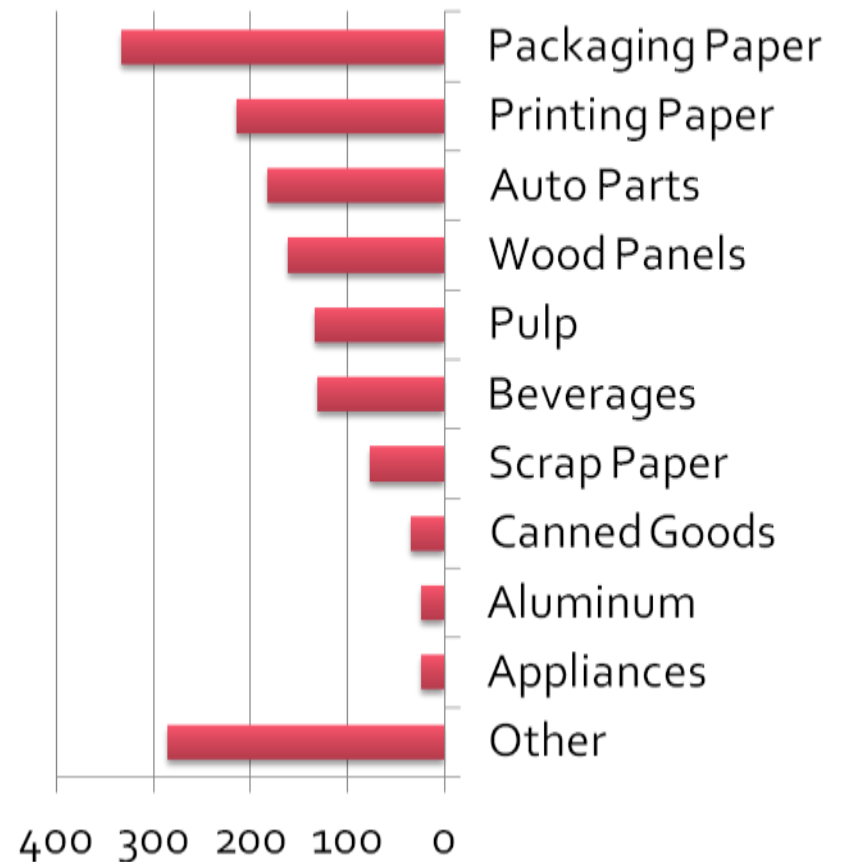
- Key car characteristics
 - Plate size
 - GRL / nominal capacity / tare wt.
 - Inside length
 - Draft gear / cushion units
- New car spec
 - Plate F, 50', 286k
 - Plate F, 60', 268k
 - Mechanical refers, Plate F, 60'/70', 286k
- Other important characteristics
 - Door type & width
 - Floor type / strength
 - Interior wall / lining

Box Car Traffic

Industry



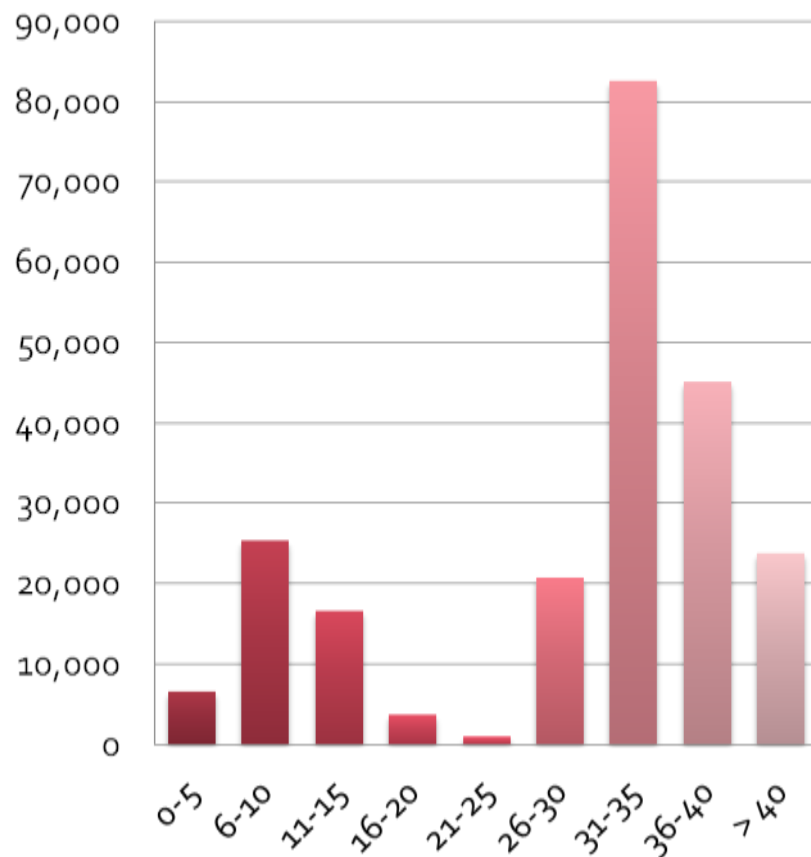
Top Commodities (000 carloads)



1,002,000 carloads (2010) STB Public Waybill

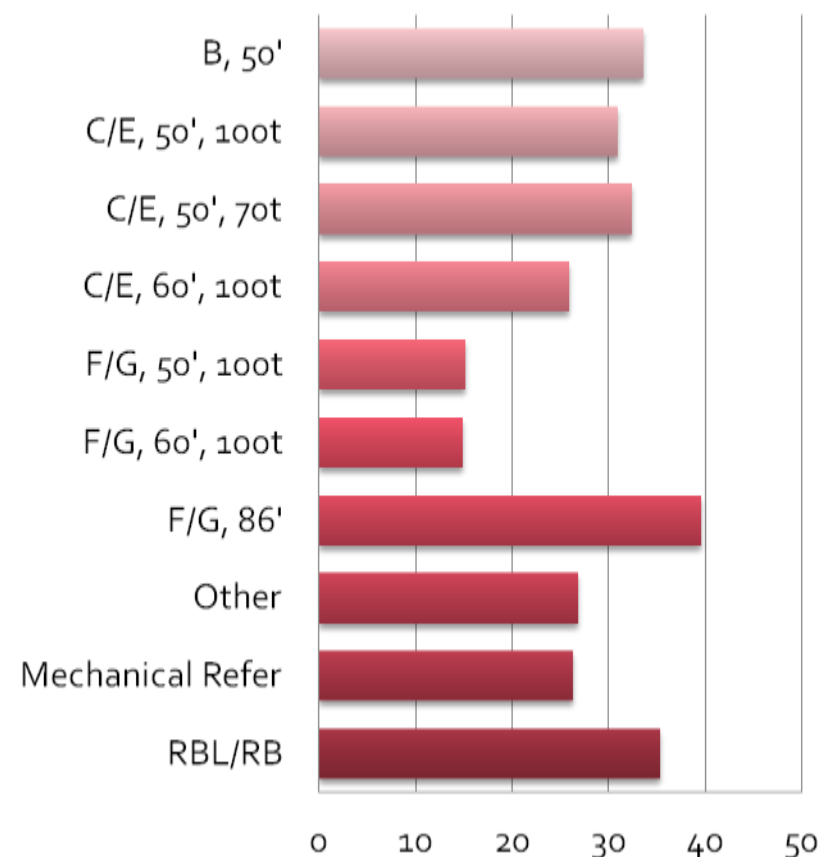
Box Car Fleet

Age Distribution



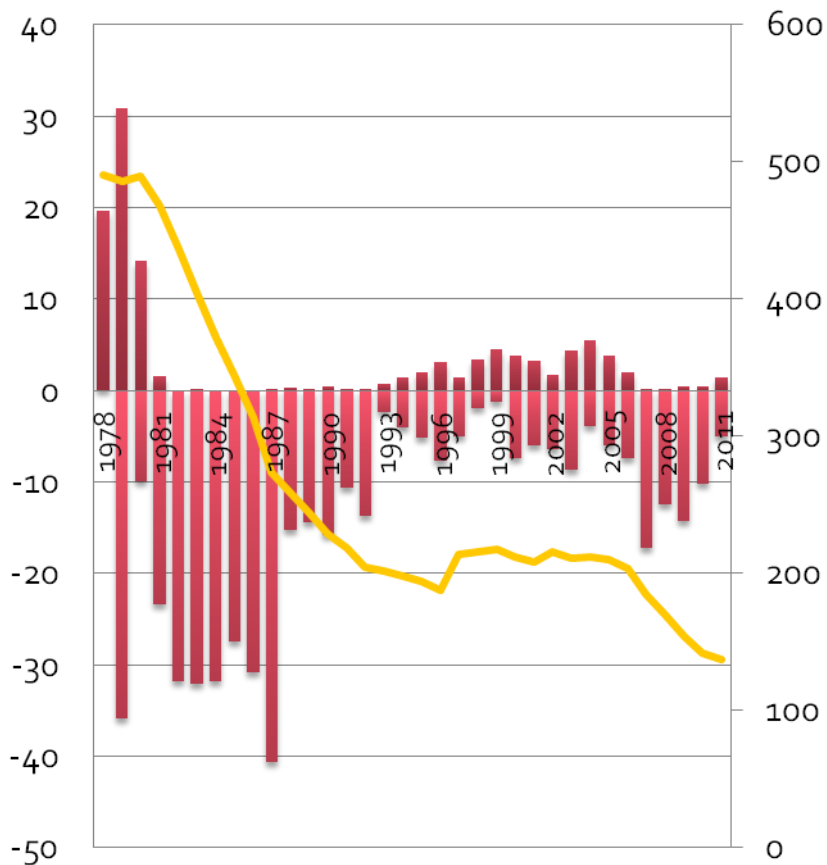
142,000 cars (2011) AAR

Average Fleet Age



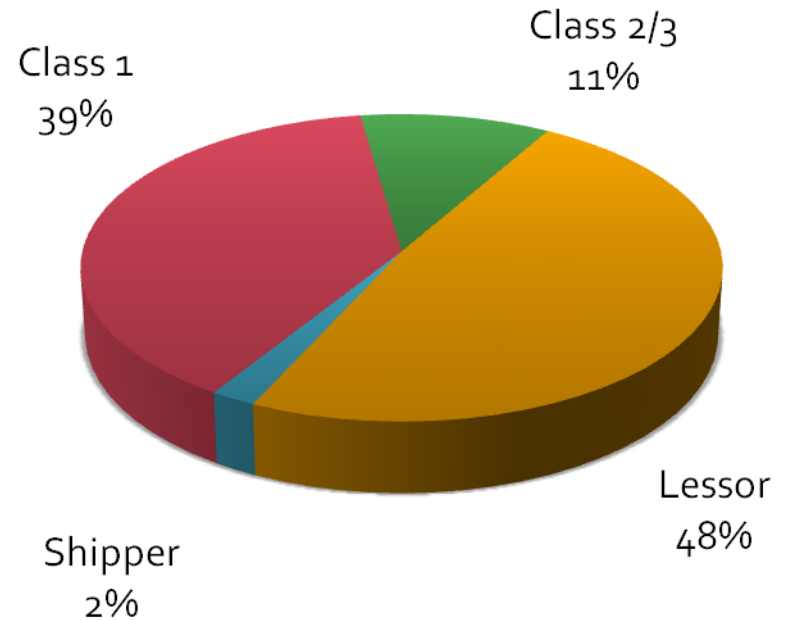
Box Car Fleet

Deliveries & Retirements



Source: RSI, ARCI, FTR, ARES

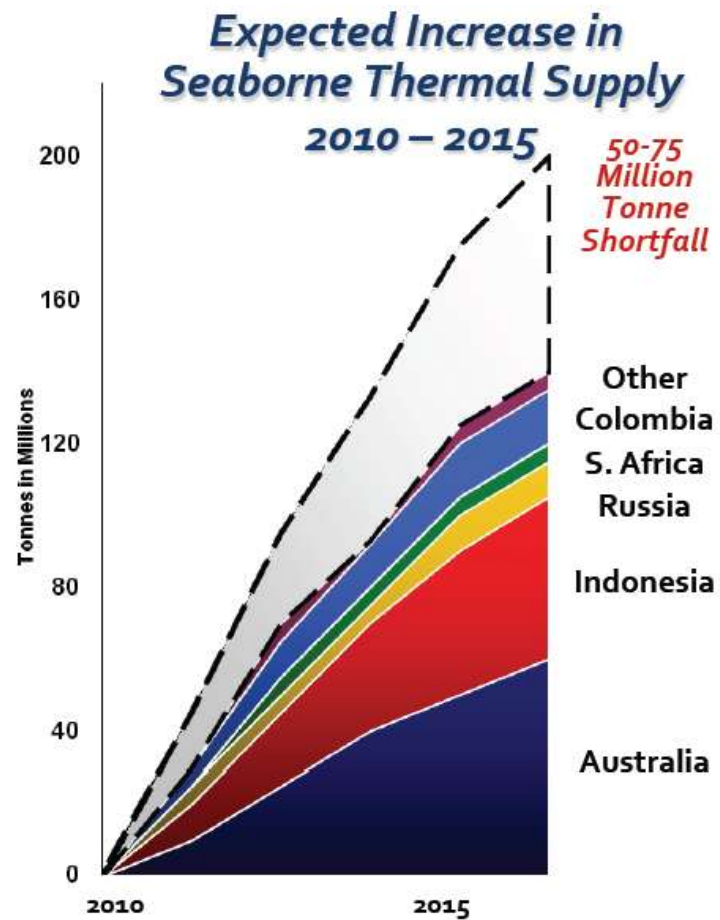
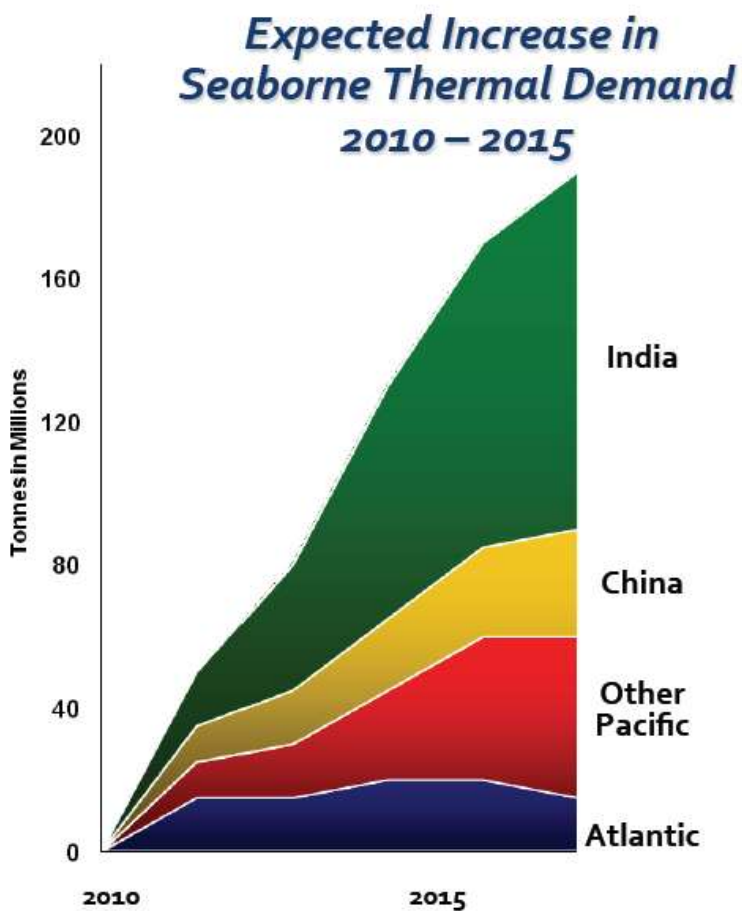
Ownership



Coal in Trouble

- Domestic in secular decline due to regs/legislation, accelerated by weather, economy and, especially NG price
- Exports tied to global economy (ie; China); competition – and infrastructure access
- What was once “stable” and base business is the most uncertain
- Solution: invest elsewhere....

Exports to the rescue?



Shale

- Frac Sand, brine & water, pipe and aggregates inbound
- In cases of Oil, “Rolling Pipelines” out....
- Hess – 286 cars, 9 trainsets now, 27 in a few years (followed by Phillips 66, Valero, others)
- Pipeline companies developing rail terminals in ND
- Rails spending capital (BNSF \$4.1B!) vs ethanol example
- Tar Sands and pipelines
- Chemical Industry – secondary impact
- Industrial Development – tertiary impact

Estimated Delta In RR Revenues/Prologistics Group

	Approx Annual Carloads		Approx Rev/Car	Change In Rev
	2008	2011		
Coal	8,320,000	7,120,000	\$1,700	(\$2,040,000,000)
Oil	6,000	92,000	\$3,700	\$318,200,000
Sand	160,000	360,000	\$3,500	\$700,000,000
Total	8,486,000	7,572,000		(\$1,021,800,000)

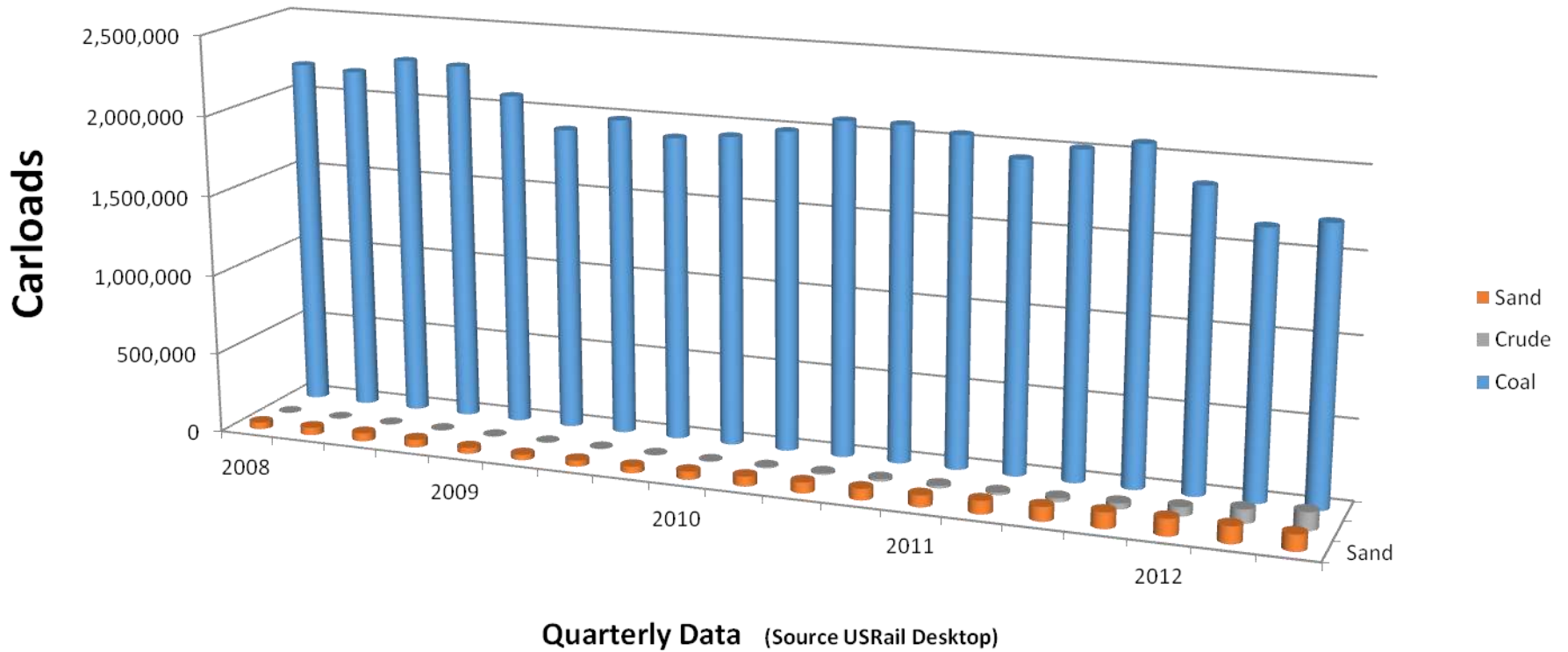
Estimated Delta In RR Revenues - PLG Consulting

Approx. Annual Carloads	2008	2012 (est.)	Approx. Revenue per Car	Change in Revenue
Coal	8,856,000	6,944,000	\$1,792	\$(3,426,858,000)
Oil	11,000	372,000	\$2,601	\$938,786,000
Sand	189,000	418,000	\$3,109	\$711,916,000
TOTAL	9,056,000	7,734,000		\$(1,776,156,000)

*2012 data is estimated for Q4

Shale Related Rail Traffic Still Small Relative to Coal Volumes

Rail Shipments Coal, Sand & Crude

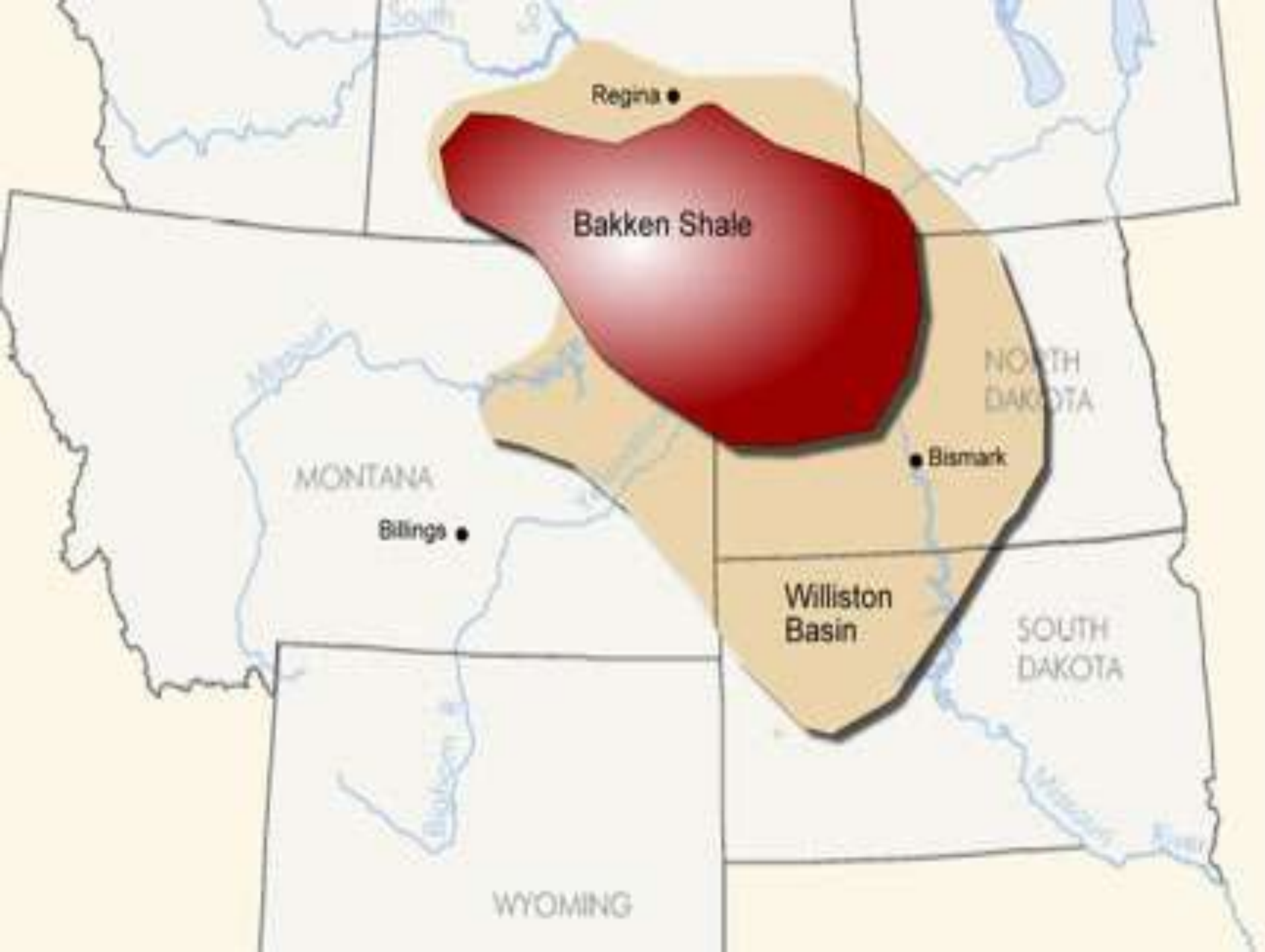


Quarterly Data (Source USRail Desktop)

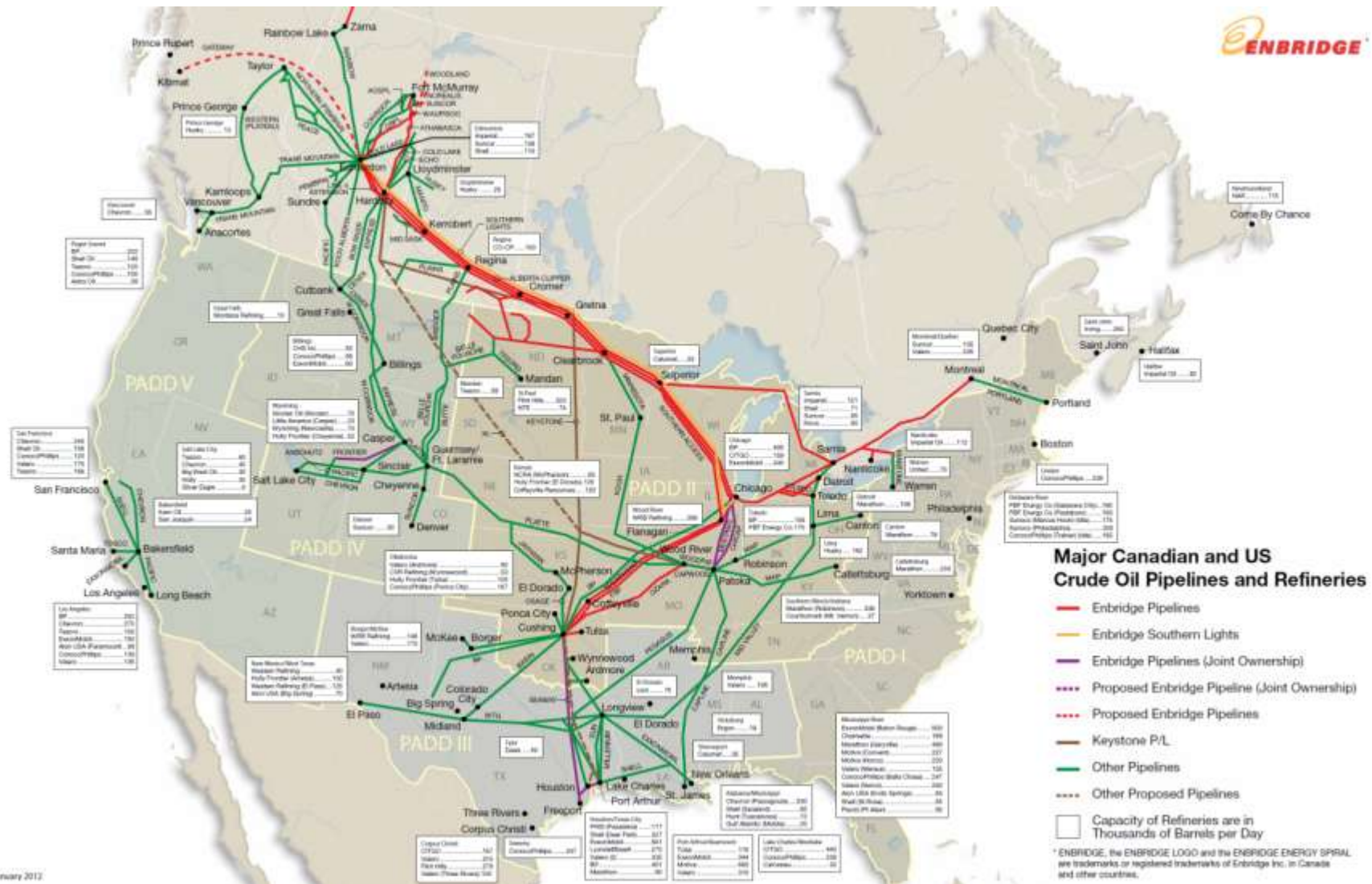
Lower 48 states shale plays



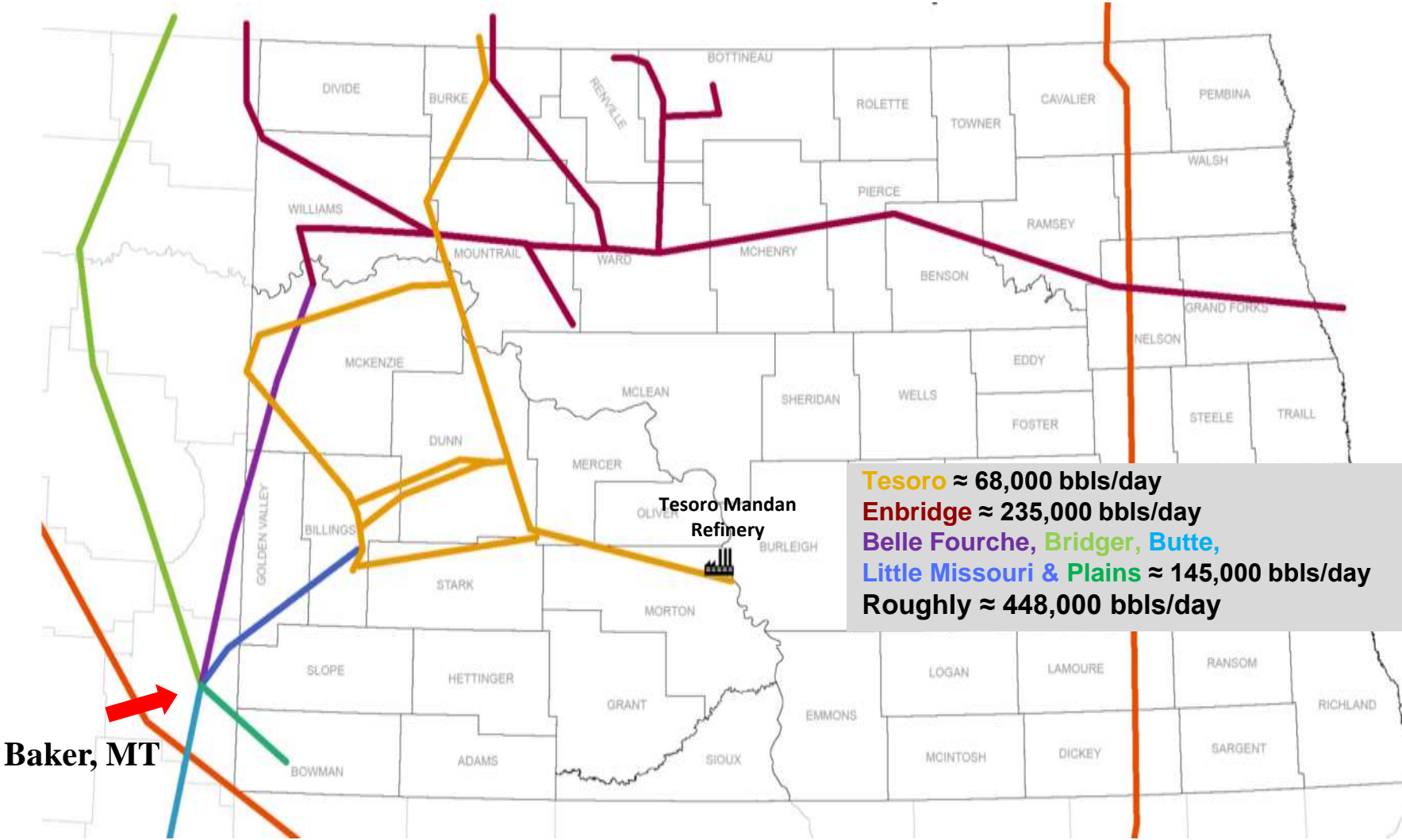
Source: Energy Information Administration based on data from various published studies. Updated: May 9, 2011



Crude Oil Pipelines & Markets



North Dakota Crude Oil Pipelines

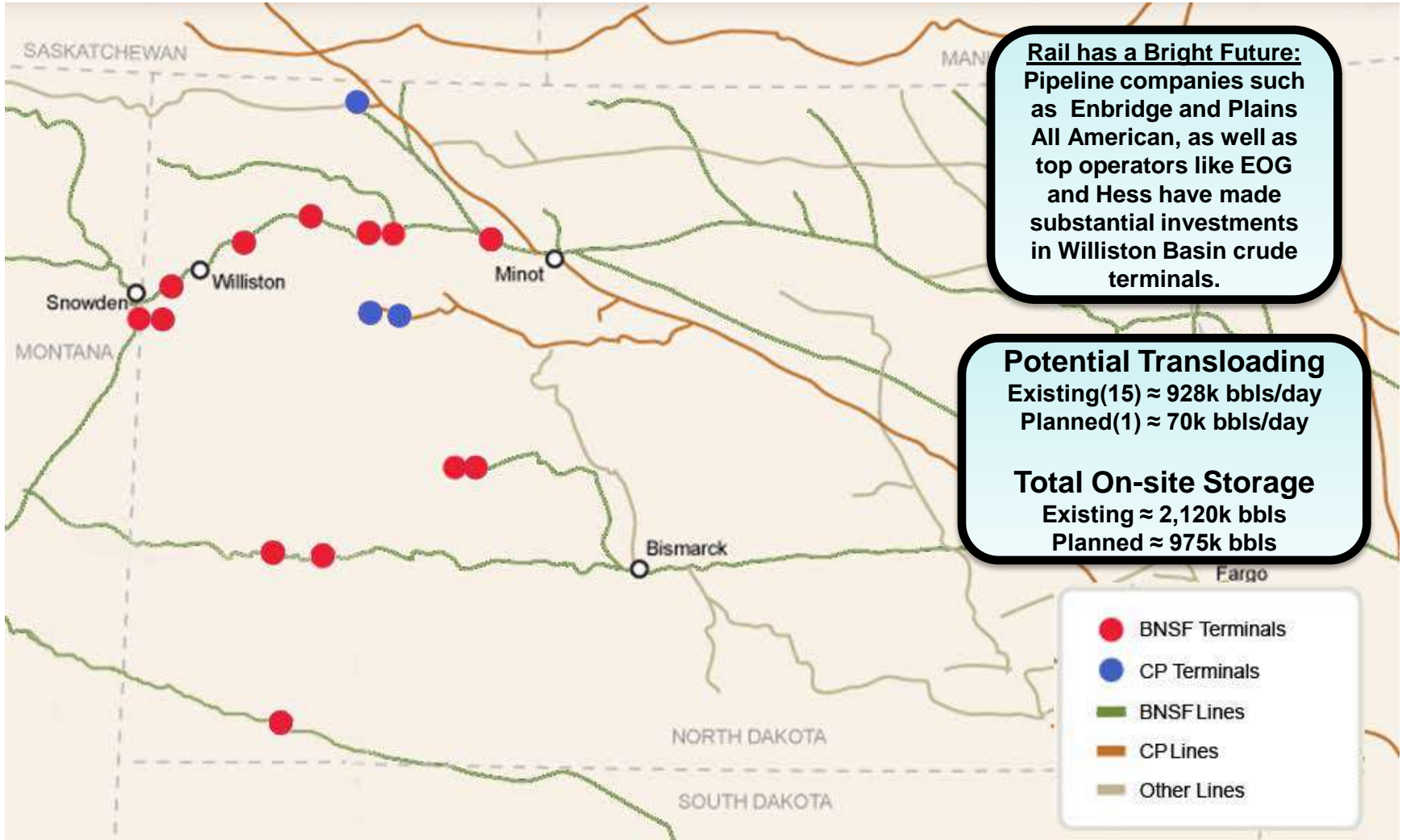


Source: North Dakota Pipeline Authority 09-20-12.

Crude By Rail Facilities

Facility	Location	Loading Capacity (BPD)	Carrier
Musket Corp	Dore	60,000	BNSF
Savage Services	Trenton	60,000	BNSF
Red River Supply	Williston	10,000	BNSF
Hess Oil	Tioga	60,000	BNSF
Plains All American	Manitou	65,000	BNSF
Bakken Transload	Ross	10,000	BNSF
EOG	Stanley	65,000	BNSF
Basin Transload	Zap	20,000	BNSF
Bakken Oil Express	Dickinson	100,000	BNSF
Enserco	Gascoyne	10,000	BNSF
Rangeland	Epping	65,000	BNSF
Enbridge *	Berthold	10,000	BNSF
Great Northern	Fryburg	60,000	BNSF
Global	Stampede	60,000	CP
Dakota Plains	New Town	40,000	CP
US Development *	Van Hook	35,000	CP
	Total Rail	730,000	

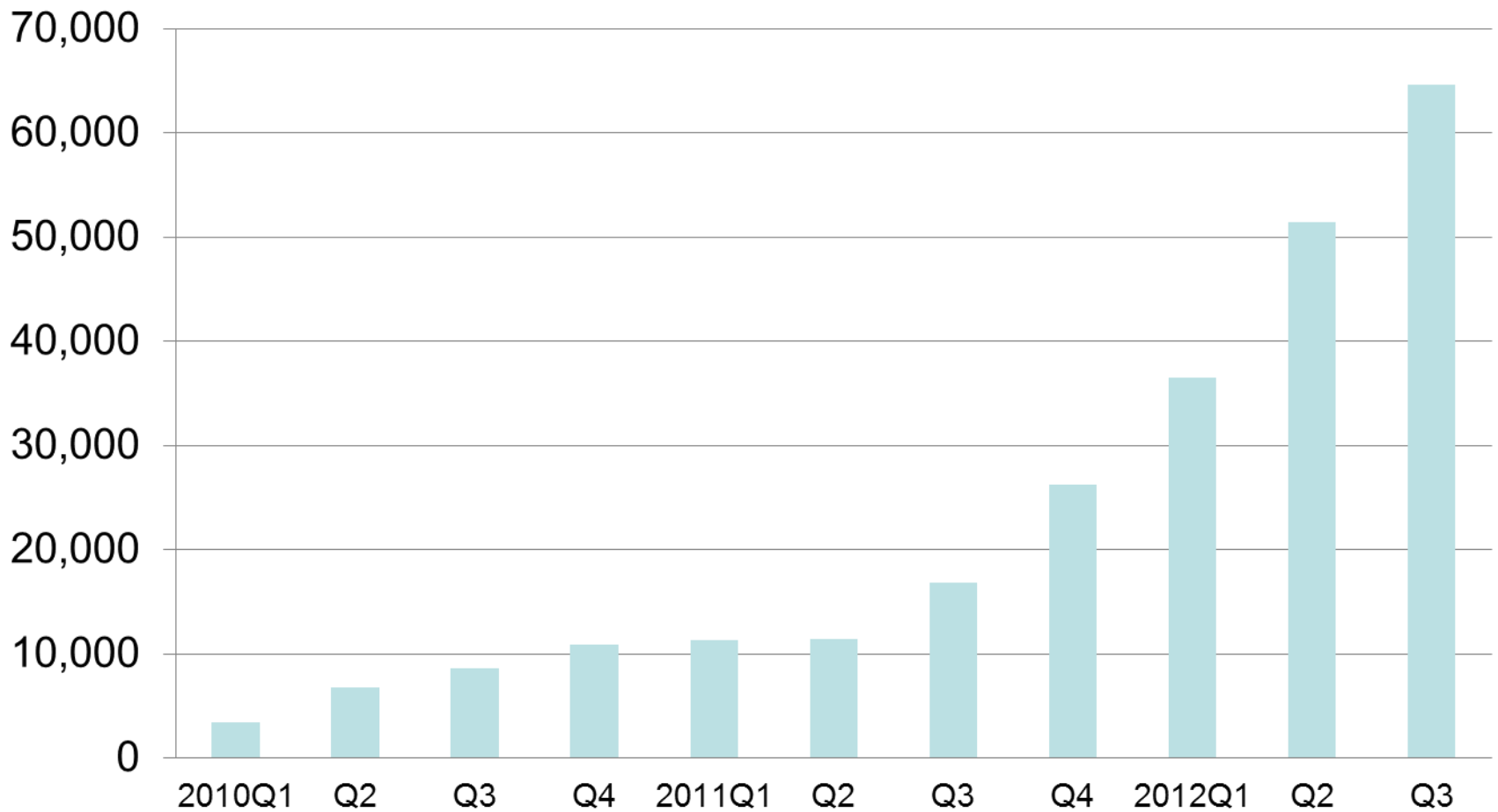
Crude Terminals



Why move crude by rail?

- Moving a barrel by rail can cost \$7 to \$14, compared with \$2 to \$5 by pipe, depending on destination. But that price difference pales in comparison to a \$15 to \$30 premium for reaching the right markets
- Producers are working shale everywhere and rail transload terminals are a cost-effective, very quick way to start moving crude to market
- *Flexibility to serve all markets using existing N.A. rail infrastructure.* Existing rail routes have capacity to reach East and West Coast markets in the U.S. that may not have sufficient pipeline capacity.
- Isolation of commodity to provide a “pure barrel” to the destination
- *Speed to market* – 12 months to build a unit train rail terminal
- Comparatively low entry level capital requirements
- Source: Watco

Class I Railroads Carloads Originated STCC 131 - Crude Petroleum



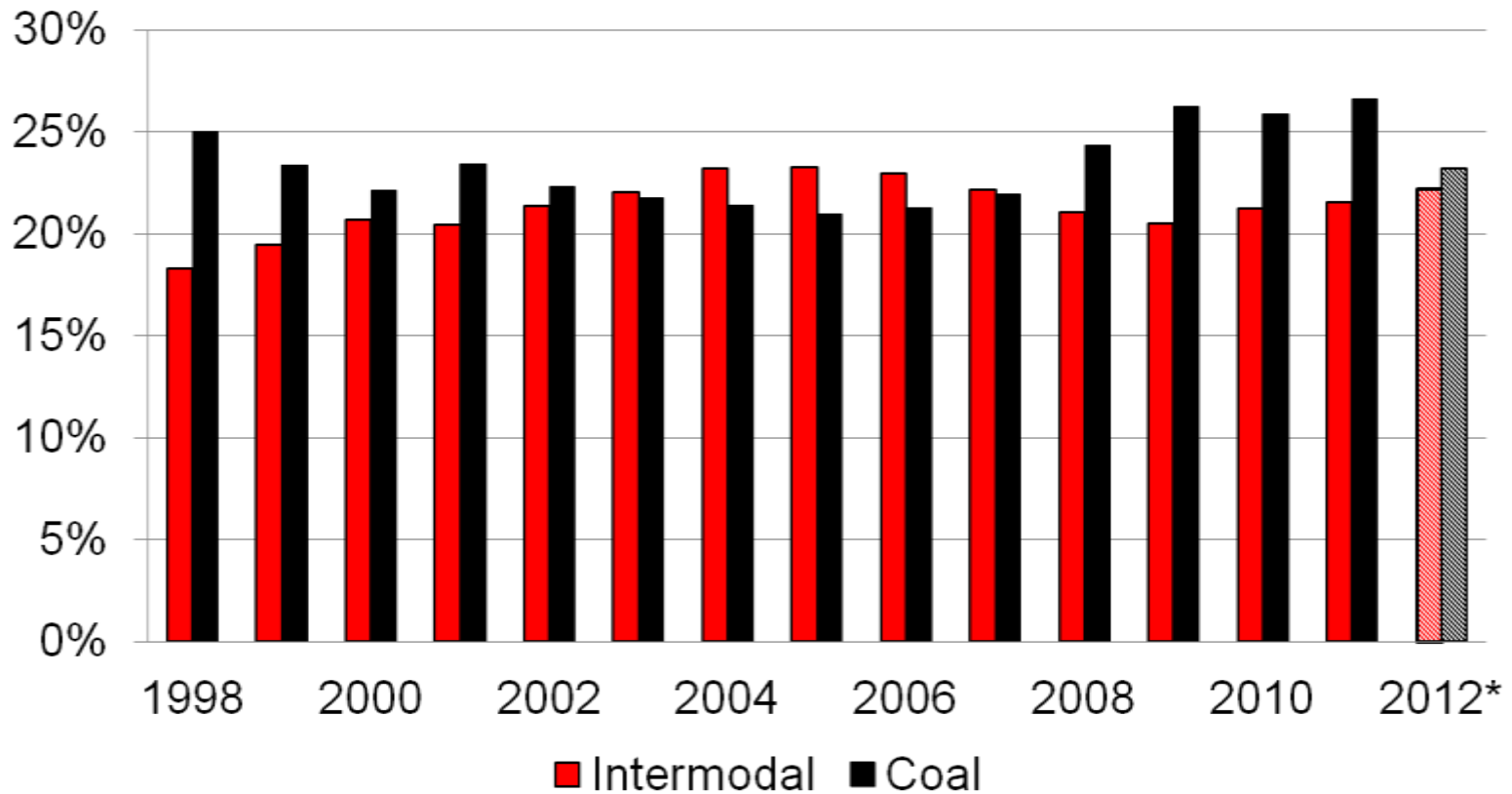
Source: AAR Rail Time Indicators, December 7, 2012, page 3

What, me worry?

- Coal – what % “secular” vs. weather, economy, NG price?
- Quick then suddenly – 10% hit?
- Activists – what's next?
- Compensation: shale (+++)?
- Compensation: chemicals? (Secondary Shale Effect)
- Compensation: export coal?
- Compensation: domestic intermodal?
- Re-Industrialization (Tertiary Shale Effect)

Revenue Share

Percent of Total Revenue for Major US Railroads



* 2012 estimated based on first half of year

Source: AAR analysis of 10-K reports for BNSF, CSX, KCS, NS & UP

Intermodal Growth Drivers

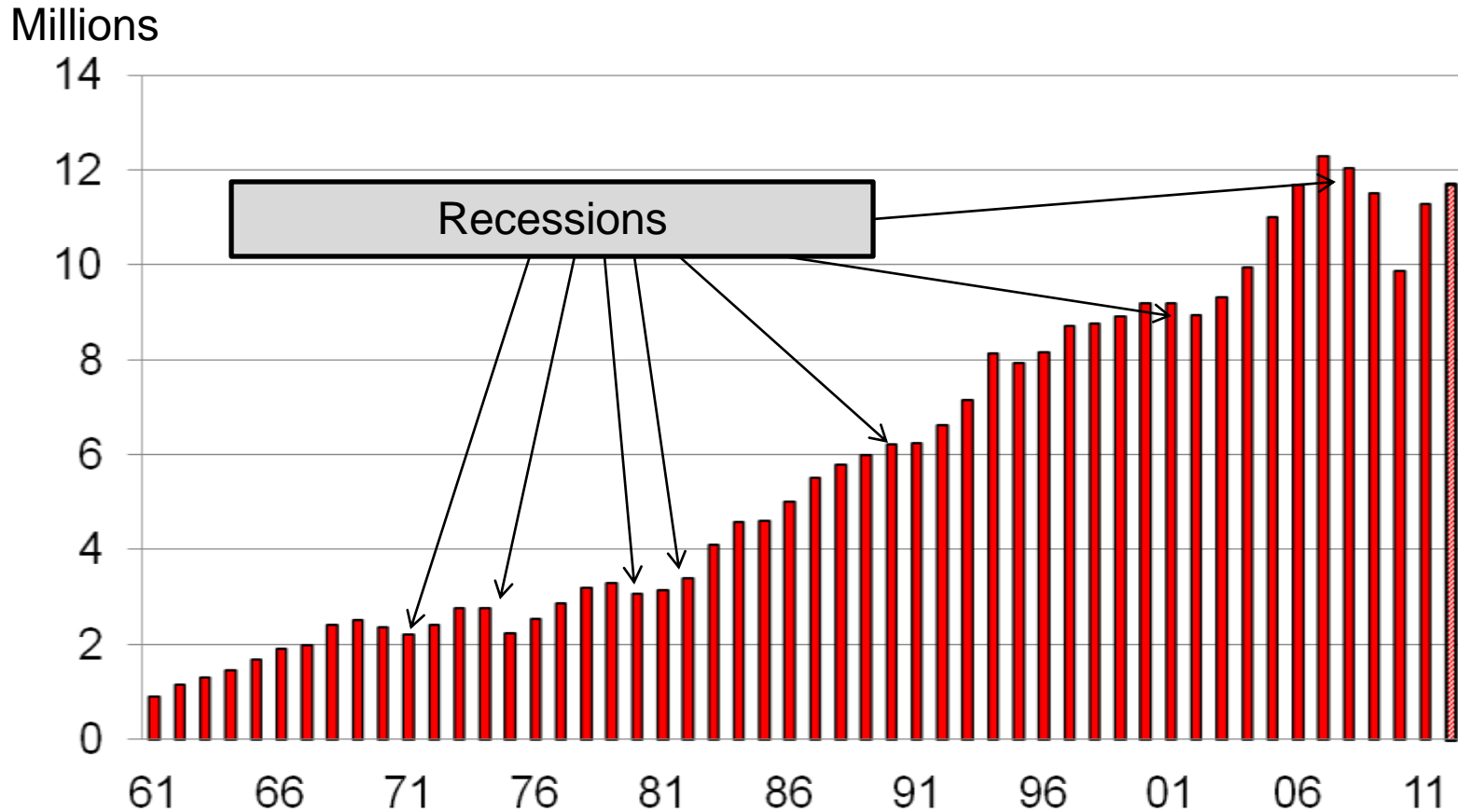
Domestic *and* International

- Globalization
- Trade
- Railroad Cost Advantages
- Fuel prices
- Carbon footprint
- Share Recovery From Highway
- Infrastructure deficit & taxes
- Truckload Issues; regulatory issues, driver issues



US Railroad Intermodal Traffic

TOFC-COFC Units

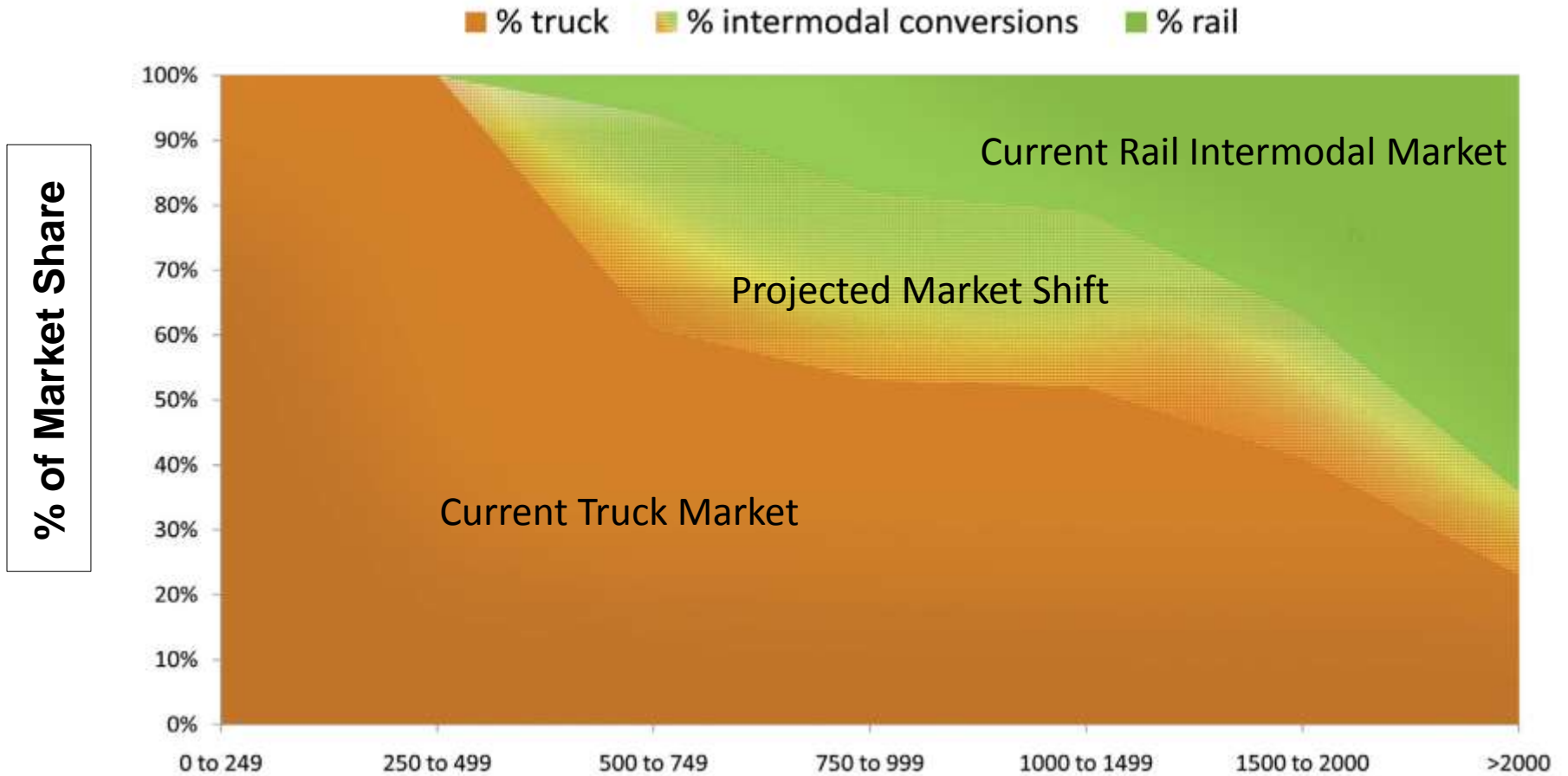


* 2012 estimated based on first 35 weeks of year

Source: AAR analysis of 10-K reports for BNSF, CSX, KCS, NS & UP

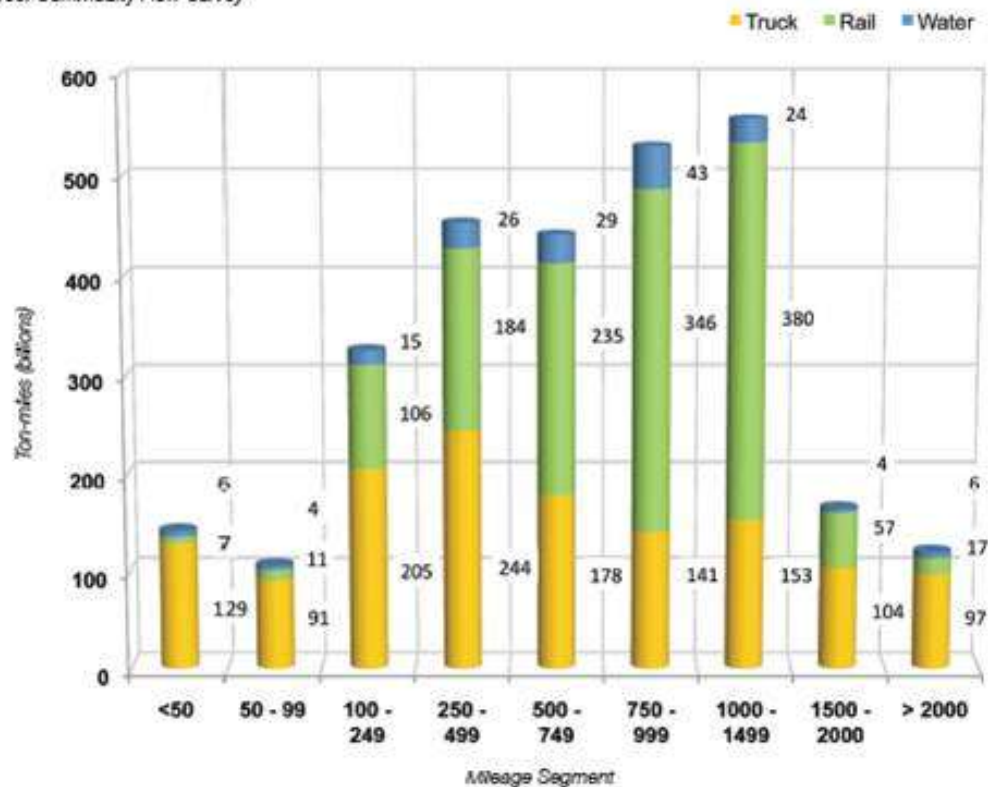
National Rail Plan

Modal Shift Projection

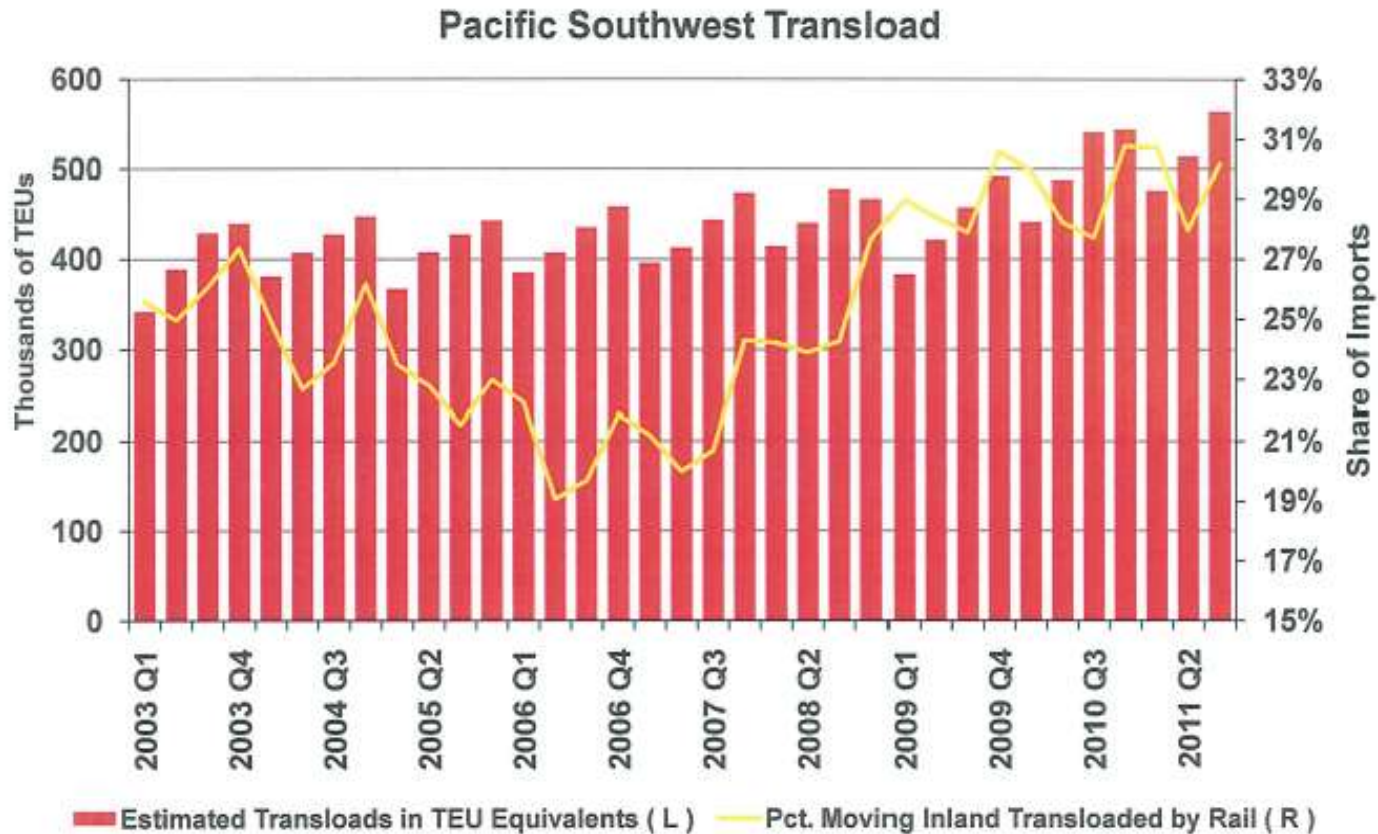


Another Look at Domestic Intermodal Market Opportunities

Figure 10: Freight Transportation Mode Share by Distance
Source: Commodity Flow Survey



TRANSLOADING REACHING NEW HIGHS



Source: TTX, IANA, Piers

Source TTX, IANS, Piers

International Intermodal

- Still game in the old vet
- Even with near-sourcing
- Even with changing flows (which may disadvantage rail)
- Retail still tied to Asia
- MLB still tied to rail service
- Growth of 1-2.5X GDP

Intermodal Issues 2013+

- International: trade flows, retail sales, exports & balance
– UNP's vision vs NRF, TTX
- Panama Canal? *On time? How much? Etc....*
- Emerging Developments – Rupert, Lazaro, Suez, Miami
- Domestic – development of “Corridors” & “Gateways”, etc
- Domestic – bimodal partners, shipper developments
- Domestic – service & pricing?
- *Domestic Container – service, new lanes – coming of age*
- *“There's somethin' happening here....”*

Re-industrialization?

- Near-Sourcing: **Mexico**, CA
- Gas effect round two:
- CHEMICAL INDUSTRY
- Fertilizers
- Steel/Autos/White Goods etc
- Northeast, etc back “in play”

Growth is Expensive:

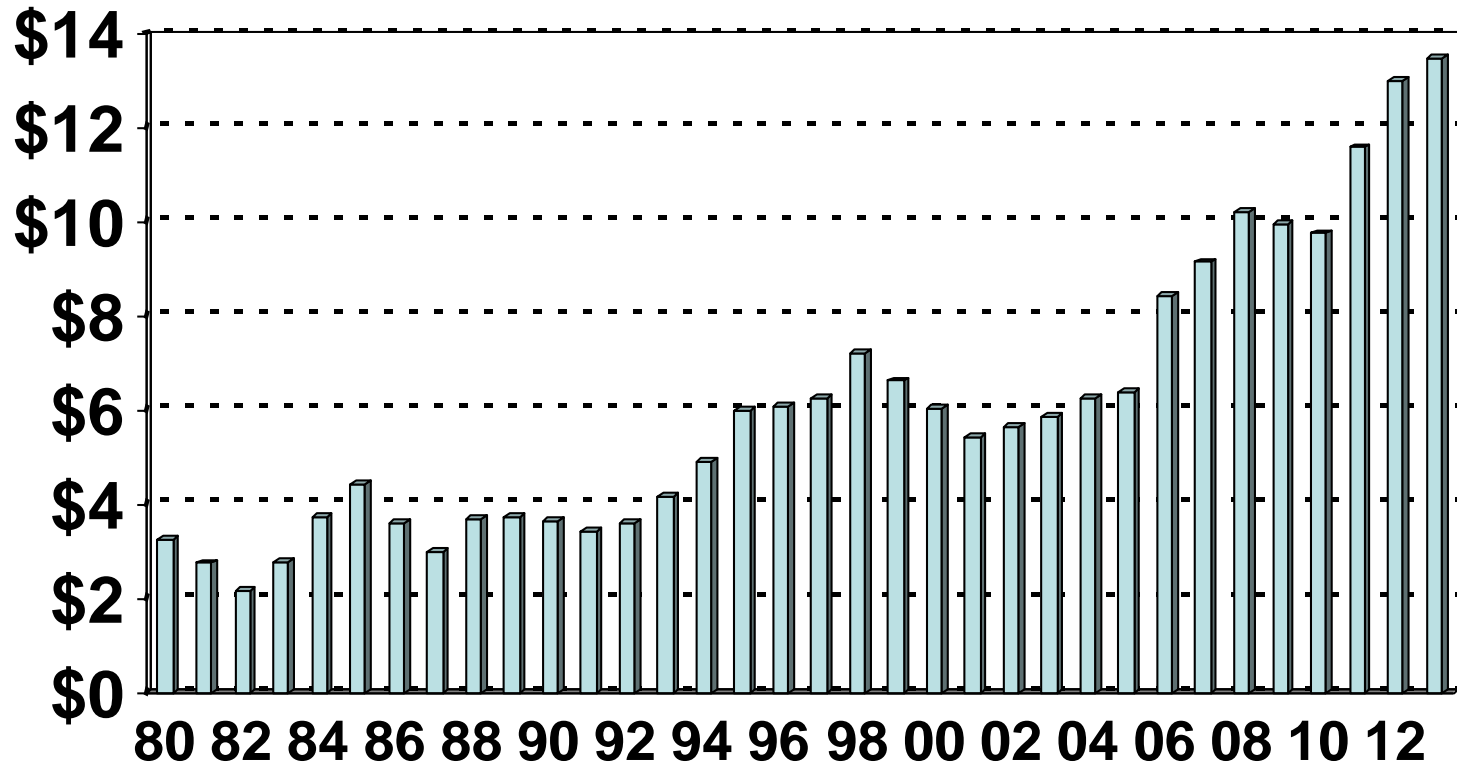
Rail Capex in 2011/12/13?

- Record \$12B in 2011; record \$13B in 2012
- Record \$14B this year – many rails pegging at 16-18% of revenues (rising by double digits)
- Some Rails have announced reductions in “%/revs” (UNP) or otherwise given guidance changes - CP
- Corridor developments, NG, terminals, locos, cars, shale build-outs, etc
- PPPs – in decline?
- Still emerging as DPS plays, buying in shares
- Total spend will be ~\$25B in 2013!
- *2013 Capex Plans/spend will be very, very interesting*

Railroad Capital Expenditures

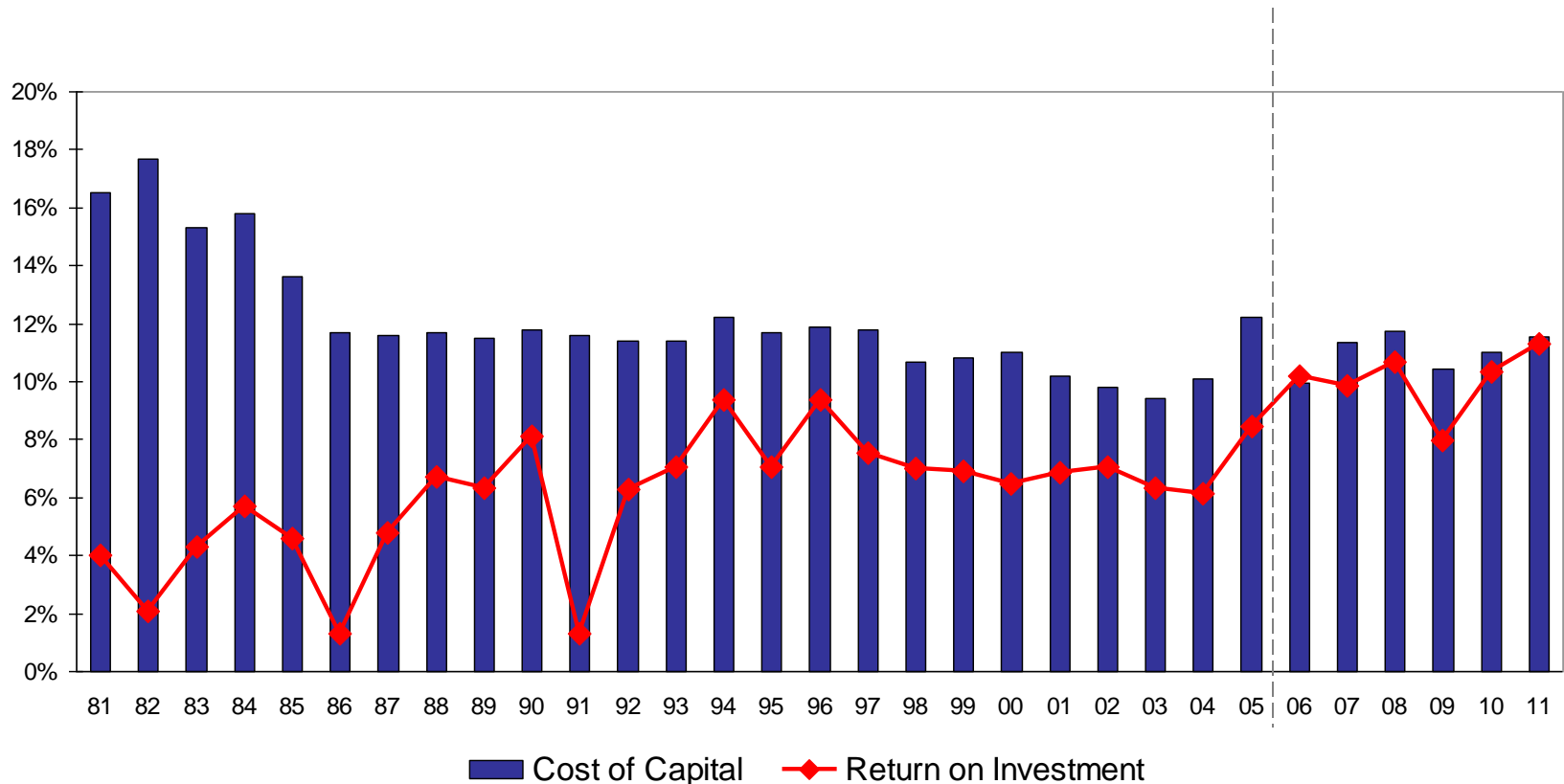
Class I Railroads

Billions



Source: *Railroad Facts & Analysis of Class I Railroads*, AAR

RR CoC vs. ROIC – RR Stocks have done well but... they still trade at a discount to all stocks



Source: Surface Transportation Board

Note: Cost of equity estimation method changed by Board effective 2006 and 2008.

ROI is everything

- Rails must retain price (“rail-inflation plus” levels, or +3-5% YOY)
- Productivity – through capex, IT, scheduling, service
- Must remain de-regulated (even if not directly an intermodal issue)

Simple Math

- Rates
- Returns
- Capital Expenditures
- Capacity
- Service

ARE ALL CONNECTED!

Virtuous Circle ('03-07) or Disinvestment?

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Election 2012

- Republicans ran pro-coal
- Dems ran pro-gas
- Labor not a near term issue
- Tea-Party and Infrastructure – Last Stand?
- New faces at T&I, EPA (DOT?)
- PPPs?
- \$- “no matter who wins, who can pay?”
- Policy continuation – mildly pro-rail/anti-coal

CP

- OY. 2nd (3rd) Proxy Fight since 1954
- Not a takeover – CHURCH OF HUNTER
- HH track record vs recent CP (OR, weather, M&A, growth)
- HH goal 65% OR by 2016 – likely....
- CP goal 70-72% in three years (YE'11 83.1%; C1 avg 71%)
- (as example) CSX goal 65% OR 2015
- CP's new management team yet to be fully revealed....("the closer")

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