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The Railroad Week in Review 5/26/2001

Burlington Northern Santa Fe hosted this year's annual analyst conference at its Fort Worth Campus Wednesday afternoon and Thursday morning. The main theme was that better service begets better prices for that service, and that more intelligent information management begets both better pricing and better service.

True, Mississippi flooding, continuing high fuel prices, and a certain softness in the manufactured goods sector continue to damp earnings prospects for this year. Perhaps as much as six or seven cents come off the current 58-cent consensus for the quarter. And maybe the 2H01 won't be as stellar as previously thought, either. However these crises shall pass, and BNSF has created new products and processes to add value to the franchise. The consensus remains at $3.00 for 2002, meaning we could see stock prices in the high $30s six or seven months out.

Takeaways from the session covered three main topics: financial, marketing, operations. CFO Tom Hund says the three focus areas for improvement are eps, ROIC, and FCF after divs. The first two are pretty self-explanatory; the third is worth another word.

We all know BNSF has set itself FCF goals of $500 mm in 2001 and $1 bn in 2005. Hund explained that target can be achieved with 3% annual volume growth, 1.5% average annual rate growth, a 73.5 OR, limiting capex to what's needed to sustain growth targets, and share repurchases equal to FCF each year. Assume general inflation at 3% per year and a PE of 13. Run the numbers and you get 12.1% CAGR in earnings per share. The debt/capital ratio decreases to 36.8% from today's 47.8% and the CAGR is a negative 5.1%.

On the marketing front, Chief Marketing Officer Chuck Schultz nailed the keys to growth as volume, price, and cost control, neatly reflecting Hund's financial keys which are rates, volume, and efficiency. Central to growth is the "Service Design Matrix," a relatively new concept to many of us, but one which creates a trip plan for each car as it's released to the railroad (you can see the trip plan algorithm results at the www.bnsf.com Transit Time page). Being able to tell a customer exactly when the car will arrive *and* making it easy to for customers to access relevant BNSF movement info is a powerful marketing tool.

Customers value consistency and reliability above even competitive rates. Thus volume grows as the product gets closer to customer spec. The important shift in pricing philosophy is movement toward more public pricing and a predictable pattern for changes. Everything points to a bigger role in customer supply chain management, and this will in turn drive new products like short-haul intermodal, the new Coal Transportation Options, expanding the agricultural shuttles into new product lines, and new alliances and partnerships. The common theme to all of this is "Ease of Doing Business," and that means web-enabling all business transactions and giving customers access to pertinent BNSF data.

The operational initiatives center on service, efficiency, and the people who put it all together. And so we come full-circle with financial, commercial, and operating initiatives literally on the same track. What this says to me is BNSF is a company with strong leadership where congruency of goals will drive customer acceptance of the new, improved product and customer acceptance will generate the revenues required to meet the FCF goals.

The Transportation Service Plan is, I think, unique to BNSF, because it generates trip plans to schedule cars and builds trains to support the trip plans. More important, it does the unheard of with things like putting merchandise cars on empty coal trains heading back the mines, running auto racks and intermodal together if that'll make the trip plans, and generally putting cars with like trip plans together regardless of commodity. Is it working?

Well, BNSF has taken the lead in encouraging and enabling customer feedback, and it's been largely positive. A scorecard option has been added to the main Equipment Request menu page to provide information regarding both BNSF and customer performance. Do take a look at the demo page if you want to see how it works. It's a worthwhile and educational exercise because it shows what's being done to sharpen car requests, eliminate keying errors, and avoid the need to over-order cars to be assured of getting the minimum needed.

Regular WIR readers have read about the importance of the Unique Selling Proposition (USP) and how it separates value-added products from commodities. For too long we watched the commoditization of transportation services as we of the rail industry have allowed customers to beat us up on price. BNSF is saying enough and has created its own USP around four elements.

First, the business emphasis is on the customer's stated trip goal or, if there is none, an internally generated car trip plan which is typically more robust than the customer's anyway. Second, systems information is integrated so there are no black holes or chimneys. Third, the Transportation Service System provides the tools to manage plan execution proactively – which is how you get reefers tagging along on intermodal trains. Fourth, the TSS and business processes (car ordering, etc.) are linked to provide continuous information flow and feedback.

Strong leadership, a commitment to excellence, and an unmistakable USP ought to generate significant results for BNSF and its stakeholders in relatively short order. Let's watch.

Peabody Energy (NYSE: BTU) went public on Tuesday closing at $35.54, up $7.54. Originally to be offered at $18-22 a share it was ratcheted up twice to open at $28 by lead underwriter Lehman Bros in response to strong demand for the shares. Briefing.com called the timing "impeccable." Steam coal powers about half of the US electricity supply and Peabody itself fires about a tenth of the generating stations in the US and 2.5% worldwide.

Recall coal helped keep rail earnings above water in 1Q01 in spite of unexciting results on the other carload businesses. We also know the spot market price for coal has been rising of late, as Ike Prillaman of NS noted in his remarks to NY analysts last month. None the less, coal producers are pricing long-term contracts aggressively. The mines have the coal, the rails have the capacity, and the buyers have options.

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