RAILROAD WEEK IN REVIEW

February 16, 2018

"Ron Batory is supremely qualified to guide the FRA moving forward, equipped with years of real world experience that will surely assist him in his oversight duties." — Ed Hamberger, President, AAR

GWR world-wide reported $572 million Q4 consolidated revenues, up 11% , of which North America contributed 56%, down from 62% a year ago, and, if memory serves, down from what was traditionally an 80-20 split between North America and everywhere else. Looking at North America exclusively, total freight revenue was $242 mm, up 4%, on just under 400,000 units, down 2%. Total revenue including non-freight came in at $320 million, off 60 bips. Operating expense including restructuring costs and the like increased 3%; ops income was $74.6 million, off 11%. The operating ratio was 76.7, nearly three percentage points worse than a year ago.

This car count table shows where volumes fell and there are really no surprises. The same-railroad car count is down 3.2% but with nice gains in automotive on west coast imports, lumber on west coast moves, paper on truck conversions, and waste products. On the call, GWR said the outlook is generally positive except for "weather dependent coal and agricultural products," with revenues up in the 3% range plus or minus a few crumbs. Asked indirectly about possible CSX line acquisitions, CEO Jack Hellmann said simply they're interested in "contiguous lines with a good fit," which has been their model all along.

GWR	Quarter				Year-to-Date	
2017	2016	Pct Chg		2017	2016	Pct Chg
Commodity Revenue ($000)			NA Only			
$ 31,329	$ 31,026	1.0%	Ag Products	$ 124,285	$ 115,627	7.5%
$ 5,882	$ 4,886	20.4%	Automotive	$ 22,901	$ 18,259	25.4%
$ 36,592	$ 34,143	7.2%	Chemicals	$ 148,252	$ 137,712	7.7%
$ 8,568	$ 8,593	-0.3%	Food or Kindred	$ 33,424	$ 33,549	-0.4%
$ 22,297	$ 20,496	8.8%	Lumber & FP	$ 87,200	$ 83,509	4.4%
$ 2,872	$ 3,741	-23.2%	Metallic Ores	$ 13,391	$ 16,819	-20.4%
$ 25,182	$ 25,472	-1.1%	Metals	$ 103,863	$ 103,799	0.1%
$ 33,065	$ 28,745	15.0%	Mins & stone	$ 130,511	$ 114,185	14.3%
$ 17,692	$ 18,184	-2.7%	Petroleum Prods	$ 68,388	$ 70,519	-3.0%
$ 27,763	$ 25,436	9.1%	Pulp & Paper	$ 107,453	$ 104,523	2.8%
$ 6,063	$ 5,283	14.8%	Waste	$ 25,063	$ 20,835	20.3%
$ 5,363	$ 5,020	6.8%	Other and haulage	$ 19,710	$ 19,520	1.0%
$ 222,668	$ 211,025	5.5%	Total	$ 884,441	$ 838,856	5.4%
$ 18,812	$ 21,353	-11.9%	Coal & Coke	$ 75,935	$ 74,664	1.7%
$ 254	$ 87	192.0%	Intermodal	$ 980	$ 99	889.9%
$ 241,734	$ 232,465	4.0%	All-in	$ 961,356	$ 913,619	5.2%

With its 100+ North American Short lines and connections with all the Class Is, GWR is , in my opinion, still a good proxy for the non-Class I railroad community as a whole. It's a tough environment, to be sure: however, GWR is wringing out what value it can. Expense lines for payroll, car hire, purchased services, and materials are all improved, and labor is now less than 32% of revenue. You could do worse than to benchmark these results against your own.

I believe it was Peter Drucker who said, "The purpose of any business is to create customers" back in the Dark Ages of 1973. It was Drucker ringing in my ears last week, when I wrote:

> The tea leaves tell me that shippers are using as little rail as they can and that Class I operating earnings gains are largely driven by rate increases. The only way we can increase railroad revenue units is by going out there and asking for orders. Short lines prove their mettle at this every day.

They create customers, in other words. Reinforcing that thread, a shortline friend of some 30 years writes,

> I like and agree with your comment in WIR about shippers using rail as little as possible. What is lacking almost everywhere is any kind of advocacy or empathy for customers of the part of the [big] railroads. Customers really are on their own – and managers or business owners put their livelihood on the line when they use rail.
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> Yet on our railroad we've added customers every year. The main thing is we talk to every customer, every week. Sometimes it's an argument – but there is always communication and some kind of problem resolution, if needed. On the big railroads, problems never get addressed and the business just goes away.

Another friend of broad railroad customer experience says he likes to ask today's Class I sales reps whether they have a car to call on shippers, as well as an expense account for lunches, etc. The overall take-away? If most of the Class marketing and sales staffs are in distant cities, how can they know what the shipper wants or, more relevant, what service could they provide that a shipper would consider using?

Yet another reader concludes that Big Railroads tend to think more in terms of "big, solid one-commodity trains and division-centric train service plans, yet the trend is clearly smaller volumes over shorter distances, and that will require more blocking in the national train plan and critically a more interdependent train plan." My reader adds that this is the "critical mind-shift" needed to capture the smaller lanes. Think NS intermodal block-swaps in Harrisburg, where 2/3 of the throughput is blocked-swapped, without the containers ever hitting the ground.

Moreover, there is a perception that much of the Big Train focus comes from "operating people who just want to handle hook and drag freight and from the bean-counters who don't like to spend money on the crews or the infrastructure it took to handle carload freight." Thus it still appears that senior commercial talent first has to wait for blessings from above, then watch as company economists crunch the numbers to see if it is worth while. Only then might customers be approached.

They have it backwards. First you approach the customer and ask what it'll take to be part of their supply chain. Then you figure out if you can create a suitable solution and do it profitably. That's the CN supply chain approach and it's working, judging by their revenue unit volume growth. Maybe others ought to take the hint.

It's About Time Dept. The Senate by voice vote last Tuesday evening confirmed Ron Batory as head of the FRA. His nomination has been on hold for some months as a number of NY and NJ legislators made the Batory confirmation vote a hostage, hoping to force the the US DOT to release federal funds for the Gateway rail tunnels project under the Hudson River.

Railway Age Contributing Editor Frank Wilner writes,

> Weighing on [the] decision to remove the hold was heightened congressional concern over rail safety following the collision with a truck of a chartered Amtrak train carrying GOP members of Congress and their families to a retreat; a number of fatal train incidents in recent months; the looming Positive Train Control implementation deadline being superintended by an agency without a Senate-confirmed administrator; and the resignation this week of acting FRA Administrator Heath Hall, alleged to have been moonlighting at a second job.

To which I must add that Ron and I have been friends more more years than we'd care to count, and that the progress he made improving safety, operations, and morale as President of the Conrail Shared Assets Operation is quite remarkable. Recall CSAO was tapped as the 2017 *Railway Age Regional Railroad of the Year,* partly on the basis of safety and operations improvement. Over Ron's tenure, employee injuries dropped 55%, with 46% fewer work injury days lost. And Conrail cut derailments by 72%: "human-factor" — 70%; track-caused — 77%.

Ron clearly knows what safe railroading takes, so now perhaps we can get our arms around the railroad industry safety culture and stop this too-constant stream of unfortunate incidents.